

CommScope Holding Company, Inc.
Form 10-Q
July 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001 - 36146

CommScope Holding Company, Inc.

(Exact name of registrant as specified in its charter)

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

1100 CommScope Place, SE

Hickory, North Carolina

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(Address of principal executive offices)

28602

(Zip Code)

(828) 324-2200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

As of July 13, 2018 there were 192,215,154 shares of Common Stock outstanding.

CommScope Holding Company, Inc.

Form 10-Q

June 30, 2018

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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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	\$1,239,856	\$1,174,090	\$2,360,373	\$2,311,375
Operating costs and expenses:				
Cost of sales	768,546	702,325	1,477,663	1,385,803
Selling, general and administrative	185,197	207,640	370,328	419,461
Research and development	47,765	46,982	97,629	95,970
Amortization of purchased intangible assets	66,442	66,981	133,671	134,619
Restructuring costs, net	7,218	13,773	12,668	19,161
Total operating costs and expenses	1,075,168	1,037,701	2,091,959	2,055,014
Operating income	164,688	136,389	268,414	256,361
Other income (expense), net	(3,094)	2,900	(2,111)	(12,457)
Interest expense	(60,726)	(61,417)	(120,533)	(130,971)
Interest income	2,057	1,730	3,491	2,604
Income before income taxes	102,925	79,602	149,261	115,537
Income tax expense	(37,003)	(24,138)	(49,604)	(26,511)
Net income	\$65,922	\$55,464	\$99,657	\$89,026
Earnings per share:				
Basic	\$0.34	\$0.29	\$0.52	\$0.46
Diluted	\$0.34	\$0.28	\$0.51	\$0.45
Weighted average shares outstanding:				
Basic	192,162	193,092	191,767	193,555
Diluted	195,186	197,218	195,346	198,173
Comprehensive income (loss):				
Net income	\$65,922	\$55,464	\$99,657	\$89,026
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	(108,544)	86,749	(61,759)	127,100
Pension and other postretirement benefit activity	(1,291)	(360)	(2,723)	(729)
Gain (loss) on net investment hedge	3,051	(2,996)	2,453	(3,351)
Available-for-sale securities	—	(2,132)	—	(823)
Total other comprehensive income (loss), net of tax	(106,784)	81,261	(62,029)	122,197

Total comprehensive income (loss)	\$(40,862)	\$136,725	\$37,628	\$211,223
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See notes to unaudited condensed consolidated financial statements.

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CommScope Holding Company, Inc.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands, except share amounts)

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$545,701	\$ 453,977
Accounts receivable, less allowance for doubtful accounts of \$19,123 and \$13,976, respectively	1,023,716	898,829
Inventories, net	479,468	444,941
Prepaid expenses and other current assets	123,371	146,112
Total current assets	2,172,256	1,943,859
Property, plant and equipment, net of accumulated depreciation of \$413,832 and \$390,389, respectively	446,954	467,289
Goodwill	2,866,319	2,886,630
Other intangible assets, net	1,491,007	1,636,084
Other noncurrent assets	129,344	107,804
Total assets	\$7,105,880	\$ 7,041,666
Liabilities and Stockholders' Equity		
Accounts payable	\$487,521	\$ 436,737
Other accrued liabilities	297,755	286,980
Total current liabilities	785,276	723,717
Long-term debt	4,374,209	4,369,401
Deferred income taxes	108,529	134,241
Pension and other postretirement benefit liabilities	23,006	25,140
Other noncurrent liabilities	111,591	141,341
Total liabilities	5,402,611	5,393,840
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value: Authorized shares: 200,000,000; Issued and outstanding shares: None	—	—
Common stock, \$.01 par value: Authorized shares: 1,300,000,000; Issued and outstanding shares: 192,214,497 and 190,906,110, respectively	1,989	1,972
Additional paid-in capital	2,361,365	2,334,071
Retained earnings (accumulated deficit)	(290,337)	(395,998)
Accumulated other comprehensive loss	(148,632)	(86,603)
Treasury stock, at cost: 6,735,330 shares and 6,336,144 shares, respectively	(221,116)	(205,616)
Total stockholders' equity	1,703,269	1,647,826
Total liabilities and stockholders' equity	\$7,105,880	\$ 7,041,666

See notes to unaudited condensed consolidated financial statements.

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CommScope Holding Company, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited - In thousands)

	Six Months Ended June 30,	
	2018	2017
Operating Activities:		
Net income	\$99,657	\$89,026
Adjustments to reconcile net income to net cash generated by		
operating activities:		
Depreciation and amortization	178,349	190,453
Equity-based compensation	22,396	20,598
Deferred income taxes	(24,610)	(14,073)
Changes in assets and liabilities:		
Accounts receivable	(137,023)	43,975
Inventories	(47,993)	(42,243)
Prepaid expenses and other assets	(608)	(1,773)
Accounts payable and other liabilities	40,881	(120,777)
Other	4,014	24,847
Net cash generated by operating activities	135,063	190,033
Investing Activities:		
Additions to property, plant and equipment	(30,844)	(30,577)
Proceeds from sale of property, plant and equipment	6,225	4,978
Proceeds upon settlement of net investment hedge	1,331	—
Other	—	6,778
Net cash used in investing activities	(23,288)	(18,821)
Financing Activities:		
Long-term debt repaid	—	(780,379)
Long-term debt proceeds	—	780,379
Debt issuance and modification costs	—	(8,363)
Debt extinguishment costs	—	(14,800)
Cash paid for repurchase of common stock	—	(100,000)
Proceeds from the issuance of common shares under equity-based		
compensation plans	4,915	8,506
Tax withholding payments for vested equity-based compensation		
awards	(15,500)	(14,858)
Net cash used in financing activities	(10,585)	(129,515)
Effect of exchange rate changes on cash and cash equivalents	(9,466)	14,566
Change in cash and cash equivalents	91,724	56,263
Cash and cash equivalent at beginning of period	453,977	428,228
Cash and cash equivalents at end of period	\$545,701	\$484,491

See notes to unaudited condensed consolidated financial statements.

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CommScope Holding Company, Inc.

Condensed Consolidated Statements of Stockholders' Equity

(Unaudited - In thousands, except share amounts)

	Six Months Ended	
	June 30,	
	2018	2017
Number of common shares outstanding:		
Balance at beginning of period	190,906,110	193,837,437
Issuance of shares under equity-based compensation plans	1,707,573	2,073,565
Shares surrendered under equity-based compensation plans	(399,186)	(396,010)
Repurchase of common stock	—	(2,485,520)
Balance at end of period	192,214,497	193,029,472
Common stock:		
Balance at beginning of period	\$ 1,972	\$ 1,950
Issuance of shares under equity-based compensation plans	17	20
Balance at end of period	\$ 1,989	\$ 1,970
Additional paid-in capital:		
Balance at beginning of period	\$ 2,334,071	\$ 2,282,014
Issuance of shares under equity-based compensation plans	4,898	8,486
Equity-based compensation	22,396	20,579
Cumulative effect of change in accounting principle	—	295
Balance at end of period	\$ 2,361,365	\$ 2,311,374
Retained earnings (accumulated deficit):		
Balance at beginning of period	\$(395,998)	\$(589,556)
Net income	99,657	89,026
Cumulative effect of change in accounting principle	6,004	(206)
Balance at end of period	\$(290,337)	\$(500,736)
Accumulated other comprehensive loss:		
Balance at beginning of period	\$(86,603)	\$(285,113)
Other comprehensive income (loss), net of tax	(62,029)	122,197
Balance at end of period	\$(148,632)	\$(162,916)
Treasury stock, at cost:		
Balance at beginning of period	\$(205,616)	\$(15,211)
Net shares surrendered under equity-based compensation plans	(15,500)	(14,858)
Repurchase of common stock	—	(100,000)
Balance at end of period	\$(221,116)	\$(130,069)
Total stockholders' equity	\$ 1,703,269	\$ 1,519,623

See notes to unaudited condensed consolidated financial statements.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

1. BACKGROUND AND BASIS OF PRESENTATION

Background

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

Basis of Presentation

The Condensed Consolidated Balance Sheet as of June 30, 2018, the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017, and the Condensed Consolidated Statements of Cash Flows and Stockholders' Equity for the six months ended June 30, 2018 and 2017 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

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, 2017 (the 2017 Annual Report). Other than the changes described below to revenue recognition policies as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, there were no material changes in the Company's significant accounting policies during the three or six months ended June 30, 2018. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements in the 2017 Annual Report.

Revenue Recognition

The Company recognizes revenue based on the satisfaction of distinct obligations to transfer goods and services to customers. The majority of the Company's revenue is from product sales. Revenue from product sales is recognized when control is transferred to the customer, typically upon either shipment or delivery. A minor portion of the Company's revenue is derived from project contracts containing a combination of product and service obligations. Revenue from project contracts is recognized either at a point in time or over time using cost input methods, based on

the specific terms of each contract.

For project contracts containing multiple distinct performance obligations, the transaction price is allocated based on the relative standalone estimated selling price of each performance obligation. The relative standalone selling price is determined using current price lists and observable pricing in separate contracts with similar customers. For performance obligations recognized over-time, judgment is required to evaluate assumptions, including the total estimated costs to determine progress towards completion of the performance obligation and to calculate the corresponding amount of revenue to recognize. If estimated total costs on any contract are greater than the net contract revenues, the entire estimated loss is recognized in the period the loss becomes known. The cumulative effects on revenue from revisions to total estimated costs are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The Company also recognizes revenue from other customer contract types, including licensing of intellectual property, software licensing and post-contract support (PCS) which may be sold as part of a bundled product offering or as a separate contract. For bundled product arrangements, the transaction price is allocated based on the relative standalone estimated selling price of each performance obligation. Distinct intellectual property obligations, including software, are considered functional in nature and are recognized as revenue at the point in time the customer receives the rights to use and benefit from the intellectual property or are determined using a usage-based royalty. PCS obligations are typically recognized over the term of the contract.

Revenue is measured based on the consideration to which the Company expects to be entitled, based on customer contracts. For sales to distributors, system integrators and value-added resellers (primarily for the CommScope Connectivity Solutions (CCS) segment), revenue is adjusted for variable consideration amounts, including estimated discounts, returns, rebates and distributor price protection programs. These estimates are determined based upon historical experience, contract terms, inventory levels in the distributor channel and other related factors. Adjustments to variable consideration estimates are recorded when circumstances indicate revisions may be necessary.

The Company records a contract asset for unbilled accounts receivable related to revenue that has been recognized in advance of consideration being unconditionally due from the customer, which is common for certain project contract performance obligations. Contract asset amounts are transferred to accounts receivable when the Company's right to the consideration becomes unconditional, which varies by contract, but is generally based on achieving certain acceptance milestones.

A contract liability for deferred revenue is recorded when consideration is received or is unconditionally due from a customer prior to transferring control of goods or services to the customer under the terms of a contract. Deferred revenue balances typically result from advance payments received from customers for product contracts or from billings in excess of revenue recognized on project or services arrangements.

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 both the three and six months ended June 30, 2018. Net sales to Anixter accounted for 12% and 11% of the Company's total net sales during the three and six months ended June 30, 2017, respectively. Sales to Anixter primarily originate within the CCS segment. Net sales to KGP Companies (KGPCo) accounted for 10% of the Company's net sales during the three months ended June 30, 2018 but did not exceed 10% for the six months ended June 30, 2018 or the three or six months ended June 30, 2017. KGPCo provides supply chain management to operators deploying wired and wireless networks in the United States (U.S.) and services end-users of both of the Company's segments. Other than Anixter and KGPCo, no direct customer accounted for 10% or more of the Company's total net sales for the three or six months ended June 30, 2018 or 2017.

Accounts receivable from Anixter accounted for 10% of the Company's accounts receivable as of June 30, 2018. Other than Anixter, no direct customer accounted for 10% or more of the Company's accounts receivable as of June 30, 2018.

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.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2017	2018	2017
Product warranty accrual, beginning of period	\$ 16,150	\$ 20,180	\$ 16,928	\$ 21,631
Provision for warranty claims	458	2,028	1,878	4,231
Warranty claims paid	(1,697)	(2,029)	(3,913)	(5,718)
Foreign exchange	(65)	104	(47)	139
Product warranty accrual, end of period	\$ 14,846	\$ 20,283	\$ 14,846	\$ 20,283

Commitments and Contingencies

The Company is either a plaintiff or a defendant in certain pending legal matters in the normal course of business. The Company may also be called upon to indemnify certain customers for costs related to products or services sold to such customers. Management believes none of these legal matters will have a material adverse effect on the Company's business or financial condition upon final disposition.

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

Asset Impairments

Goodwill is tested for impairment annually or at other times if events have occurred or circumstances exist that indicate the carrying value of the reporting unit may exceed its fair value. There were no goodwill impairments identified during the three or six months ended June 30, 2018 or 2017.

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. Equity investments without readily determinable fair values are evaluated each reporting period for impairment based on a qualitative assessment and are then measured at fair value if an impairment is determined to exist. Other than certain assets impaired as a result of restructuring actions, there were no definite-lived intangible or other long-lived asset impairments identified during the three or six months ended June 30, 2018 or 2017.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Income Taxes

On December 22, 2017, the U.S. government enacted tax reform legislation that reduced the corporate income tax rate from 35% to 21% and included a broad range of complex provisions affecting the taxation of businesses. Generally, financial statement recognition of the new legislation would be required to be completed in the period of enactment; however, in response to the complexities of this new legislation, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 118 to provide companies with transitional relief. Specifically, when the initial accounting for items under the new legislation is incomplete, the guidance allows the recognition of provisional amounts when reasonable estimates can be made or the continued application of the prior tax law if a reasonable estimate of the effect cannot be made. The SEC staff has provided up to one year from the date of enactment for companies to finalize the accounting for the effects of this new legislation. Although no changes were made to the provisional amounts during the three months or six months ended June 30, 2018, the Company expects to refine the calculations as additional analysis is completed and as a more thorough understanding of the new tax law is reached. The changes made could be material to income tax expense.

The effective income tax rate of 36.0% and 33.2% for the three and six months ended June 30, 2018, respectively, was higher than the statutory rate of 21.0% primarily due to the effect of the provision for state income taxes, the impact of earnings in foreign jurisdictions that are taxed at rates higher than the U.S. statutory rate, the impact of the new U.S. anti-deferral provisions and the impact of repatriation taxes. These increases to the effective tax rate were partially offset by the favorable impact of \$0.4 million and \$4.7 million of excess tax benefits related to equity-based compensation awards for the three and six months ended June 30, 2018, respectively.

The effective income tax rate of 30.3% and 22.9% for the three and six months ended June 30, 2017, respectively, was lower than the statutory rate of 35.0% primarily due to the favorable impact of \$4.4 million and \$13.1 million of excess tax benefits related to equity-based compensation awards for the three and six months ended June 30, 2017, respectively. The effective income tax rate was also favorably affected by the impact of earnings in foreign jurisdictions that the Company did not plan to repatriate. These earnings were generally taxed at rates lower than the U.S. statutory rate. Offsetting these decreases for the three and six months ended June 30, 2017 was the effect of the provision for state income taxes.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is based on net income divided by the weighted average number of common shares outstanding plus the effect of potentially dilutive common shares using the treasury stock method. Potentially dilutive common shares include outstanding equity-based awards (stock options, restricted stock units and performance share units). Certain outstanding equity-based awards were not included in the computation of diluted earnings per share because the effect was either antidilutive or the performance conditions were not met (2.2 million shares and 1.7 million shares for the three and six months ended June 30, 2018, respectively, and 0.7 million shares and 0.5 million shares for the three and six months ended June 30, 2017, respectively).

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

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Numerator:				
Net income for basic and diluted earnings per share	\$65,922	\$55,464	\$99,657	\$89,026
Denominator:				
Weighted average common shares outstanding - basic	192,162	193,092	191,767	193,555
Dilutive effect of equity-based awards	3,024	4,126	3,579	4,618
Weighted average common shares outstanding - diluted	195,186	197,218	195,346	198,173
Earnings per share:				
Basic	\$0.34	\$0.29	\$0.52	\$0.46
Diluted	\$0.34	\$0.28	\$0.51	\$0.45

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Recent Accounting Pronouncements

Adopted During the Six Months Ended June 30, 2018

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers, including all subsequently issued clarifying guidance, on January 1, 2018. The core principle of the new guidance is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Company adopted the standard using the modified retrospective approach with the cumulative effect of applying the standard on the date of adoption recognized in retained earnings (accumulated deficit).

Revenue recognition for the Company's product sales remained generally consistent with historical practice. However, the adoption of ASU No. 2014-09 resulted in acceleration of revenue recognition for certain project contracts containing integrated product and service obligations, primarily within the CommScope Mobility Solutions (CMS) segment. These multi-element contracts represented less than 2.0% of total net sales for the three and six months ended June 30, 2018 and 2017. For these contracts, certain performance obligations are recognized over time using cost-based input methods, which recognize revenue and cost of sales based on the relationship between actual costs incurred compared to the total estimated cost for the performance obligation. Based on contracts in effect at January 1, 2018, the Company recorded a cumulative effect adjustment, net of tax, of \$3.4 million, which reduced the accumulated deficit on the Condensed Consolidated Balance Sheets. This adjustment reflects an acceleration of revenues of \$8.0 million.

The impact of adoption of the new revenue recognition standard on our condensed consolidated financial statements was as follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Amounts Without Adoption of ASU No. 2014-09	Effect of Change Increase / (Decrease)	As Reported	Amounts Without Adoption of ASU No. 2014-09	Effect of Change Increase / (Decrease)
Net sales	\$1,239,856	\$1,239,800	\$ 56	\$2,360,373	\$2,362,057	\$ (1,684)
Cost of sales	768,546	768,288	258	1,477,663	1,477,185	478
Operating income	164,688	164,890	(202)	268,414	270,576	(2,162)
Income tax expense	37,003	37,028	(25)	49,604	50,142	(538)
Net income	65,922	66,099	(177)	99,657	101,281	(1,624)

As of June 30, 2018

As Reported	Amounts Without	Effect of Change
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		Adoption of	Increase / (Decrease)
		ASU No. 2014-09	
Assets:			
Accounts receivable, less allowance			
	\$1,023,716	\$1,020,404	\$ 3,312
for doubtful accounts			
Inventories, net	479,468	483,275	(3,807)
Liabilities:			
Other accrued liabilities	297,755	300,040	(2,285)
Equity:			
Retained earnings (accumulated deficit)	(290,337)	(292,127)	1,790

The Company adopted ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, on January 1, 2018. This new guidance 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. Adoption of this new guidance did not have a material impact on the consolidated financial statements.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The Company adopted ASU No. 2016-16, Accounting for Income Taxes, Intra-Entity Asset Transfers of Assets Other than Inventory, on January 1, 2018. Under previous guidance, the tax effects of intra-entity asset transfers were deferred until the transferred asset was sold to a third party or otherwise recovered through use. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. As a result, the tax effect of an intra-entity asset sale would be recognized when the transfer occurs. The Company recorded a cumulative effect adjustment of \$2.6 million as of January 1, 2018 that decreased the accumulated deficit on the Condensed Consolidated Balance Sheets as a result of this new guidance.

The Company adopted ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, on January 1, 2018. The new standard requires an employer to report the service cost component of net periodic benefit cost in the same line item as other compensation costs arising from services rendered by the employee and requires the other components of net periodic benefit cost to be reported outside the subtotal of operating income. Of the total \$1.3 million of net periodic benefit income for the three months ended June 30, 2018, \$2.3 million of net periodic benefit income was recorded in other income (expense), net, and \$1.0 million of net periodic benefit cost was recorded within operating income. Of the total \$2.4 million of net periodic benefit income for the six months ended June 30, 2018, \$4.6 million of net periodic benefit income was recorded in other income (expense), net, and \$2.2 million of net periodic benefit cost was recorded within operating income. The Company utilized the practical expedient and used the amounts disclosed in its employee benefit plans note for the three and six months ended June 30, 2017 as the basis for applying the retrospective presentation requirements. The Company reclassified \$1.4 million and \$2.8 million of net periodic benefit income from operating income to other income (expense), net for the three and six months ended June 30, 2017, respectively. The adoption of this guidance had no impact on the previously reported income before income taxes or net income for the three or six months ended June 30, 2017.

The Company adopted ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities, on January 1, 2018. The new guidance provides targeted improvements to the hedge accounting model intended to allow financial reporting to more closely reflect an entity's risk management activities and to simplify the application of hedge accounting. Beginning January 1, 2018, the Company has elected to assess the effectiveness of its net investment hedges using the spot rate method. As a result, differences between the spot rate and the forward rate will be amortized on a straight-line basis to other income (expense), net over the life of the contract. See Note 6 for the details on the impact of this change to the financial statements.

Issued but Not Adopted

In February 2018, the Financial Accounting Standards Board (FASB) issued ASU No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows companies to elect reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the U.S. tax legislation enacted in 2017. ASU No. 2018-02 is effective for the Company as of January 1, 2019 and early adoption is permitted. The Company does not expect to elect the permitted reclassification and therefore does not expect the new guidance to have an impact on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test of Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. Under the new guidance, an entity will perform its annual or interim

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

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

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

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

2. ACQUISITIONS

On August 1, 2017, the Company acquired Cable Exchange in an all cash transaction. The Company paid \$108.7 million (\$105.2 million net of cash acquired) and recorded a \$14.5 million liability for the remaining payments due. Cable Exchange is a quick-turn supplier of fiber optic and copper assemblies for data, voice and video communications. Net sales of Cable Exchange products are reflected in the CCS segment for the three and six months ended June 30, 2018 and were not material.

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

	Estimated Fair Value
Cash and cash equivalents	\$ 3.5
Accounts receivable	6.4
Inventory	4.4
Property, plant and equipment	0.9
Goodwill	49.6
Identifiable intangible assets	61.1
Less: Liabilities assumed	(2.7)
Net acquisition cost	\$ 123.2

The goodwill arising from the purchase price allocation of the Cable Exchange 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 liabilities assumed.

3. GOODWILL

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

	CCS	CMS	Total
Goodwill, gross at December 31, 2017	\$2,193.2	\$904.4	\$3,097.6
Foreign exchange	(18.9)	(1.4)	(20.3)
Goodwill, gross at June 30, 2018	2,174.3	903.0	3,077.3
Accumulated impairment charges at December 31, 2017			
and June 30, 2018	(51.5)	(159.5)	(211.0)

Goodwill, net at June 30, 2018	\$2,122.8	\$743.5	\$2,866.3
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4. SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Disaggregated Net Sales

The following table presents net sales by reportable segment, disaggregated based on contract type (in millions):

	Three Months Ended			Six Months Ended		
	June 30, 2018			June 30, 2018		
	CCS	CMS	Total	CCS	CMS	Total
Contract type:						
Product contracts	\$738.4	\$474.5	\$1,212.9	\$1,410.0	\$899.8	\$2,309.8
Project contracts	0.1	13.5	13.6	0.1	24.0	24.1
Other contracts	2.0	11.4	13.4	4.0	22.5	26.5
Consolidated net sales	\$740.5	\$499.4	\$1,239.9	\$1,414.1	\$946.3	\$2,360.4

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Further information on net sales by reportable segment and geographic region is included in Note 8.

Allowance for Doubtful Accounts

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Allowance for doubtful accounts, beginning of period	\$ 15,107	\$ 18,103	\$ 13,976	\$ 17,211
Charged to costs and expenses	5,058	241	6,524	1,053
Deductions ⁽¹⁾	(1,042)	494	(1,377)	574
Allowance for doubtful accounts, end of period	\$ 19,123	\$ 18,838	\$ 19,123	\$ 18,838

(1)Uncollectible customer accounts written off, net of recoveries of previously written off customer accounts.

Customer Contract Balances

The following table provides the balance sheet location and amounts of contract assets and liabilities from contracts with customers as of June 30, 2018 and December 31, 2017.

	Balance Sheet Location	June 30, 2018	December 31, 2017
Unbilled accounts receivable	Accounts receivable, less allowance for doubtful accounts	\$ 4,138	\$ —
Deferred revenue	Other accrued liabilities	11,888	12,611

There were no material changes to contract asset balances for the three or six months ended June 30, 2018 as a result of changes in estimates or impairments. The full amount of the deferred revenue balance as of June 30, 2018 was classified as a current liability as the Company expects to recognize these amounts over the next twelve months.

Inventories

	June 30, 2018	December 31, 2017
Raw materials	\$ 153,106	\$ 126,558
Work in process	104,706	98,526
Finished goods	221,656	219,857
	\$ 479,468	\$ 444,941

Other Accrued Liabilities

	June 30,	December 31,
	2018	2017
Compensation and employee benefit liabilities	\$ 102,292	\$ 97,522
Accrued interest	18,610	23,485
Deferred revenue	11,888	12,611
Product warranty accrual	14,846	16,928
Restructuring reserve	14,211	24,961
Income taxes payable	23,708	16,949
Purchase price payable	10,717	2,098
Value-added taxes payable	18,683	11,838
Accrued professional fees	9,505	10,224
Other	73,295	70,364
	\$ 297,755	\$ 286,980

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Accumulated Other Comprehensive Loss

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Foreign currency translation				
Balance at beginning of period	\$(5,985)	\$(213,797)	\$(52,770)	\$(254,148)
Other comprehensive income (loss)	(108,544)	86,749	(61,759)	126,833
Amounts reclassified from AOCL	—	—	—	267
Balance at end of period	\$(114,529)	\$(127,048)	\$(114,529)	\$(127,048)
Net investment hedge				
Balance at beginning of period	\$(5,579)	\$(355)	\$(4,981)	\$—
Other comprehensive income (loss)	3,051	(2,996)	2,453	(3,351)
Balance at end of period	\$(2,528)	\$(3,351)	\$(2,528)	\$(3,351)
Defined benefit plan activity				
Balance at beginning of period	\$(30,284)	\$(33,842)	\$(28,852)	\$(33,473)
Amounts reclassified from AOCL	(1,291)	(360)	(2,723)	(729)
Balance at end of period	\$(31,575)	\$(34,202)	\$(31,575)	\$(34,202)
Available-for-sale securities				
Balance at beginning of period	\$—	\$3,817	\$—	\$2,508
Other comprehensive income	—	1,616	—	3,314
Amounts reclassified from AOCI	—	(3,748)	—	(4,137)
Balance at end of period	\$—	\$1,685	\$—	\$1,685
Net AOCL at end of period	\$(148,632)	\$(162,916)	\$(148,632)	\$(162,916)

Amounts reclassified from net AOCL related to foreign currency translation, available-for-sale securities and defined benefit plans are recorded in other income (expense), net in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

Cash Flow Information

	Six Months Ended	
	June 30, 2018	2017
Cash paid during the period for:		
Income taxes, net of refunds	\$63,885	\$77,318

Interest	120,251	105,376
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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

5. FINANCING

	June 30, 2018	December 31, 2017
5.00% senior notes due March 2027	\$ 750,000	\$ 750,000
6.00% senior notes due June 2025	1,500,000	1,500,000
5.50% senior notes due June 2024	650,000	650,000
5.00% senior notes due June 2021	650,000	650,000
Senior secured term loan due December 2022	886,250	886,250
Senior secured revolving credit facility expires May 2020	—	—
Total principal amount of debt	\$ 4,436,250	\$ 4,436,250
Less: Original issue discount, net of amortization	(3,092)	(3,389)
Less: Debt issuance costs, net of amortization	(58,949)	(63,460)
Total long-term debt	\$ 4,374,209	\$ 4,369,401

See Note 6 in the Notes to Consolidated Financial Statements in the 2017 Annual Report for additional information on the terms and conditions of the Company's debt obligations.

Senior Secured Credit Facilities

No portion of the senior secured term loan was reflected as a current portion of long-term debt as of June 30, 2018 related to the potentially required excess cash flow payment because the amount that may be payable in 2019, if any, cannot currently be reliably estimated. There was no excess cash flow payment required in 2018 related to 2017.

During the six months ended June 30, 2018, the Company did not borrow under its revolving credit facility. As of June 30, 2018, the Company had availability of \$506.4 million under the asset-based revolving credit facility, after giving effect to borrowing base limitations and outstanding letters of credit.

Other Matters

The Company's non-guarantor subsidiaries held \$2,454 million, or 35%, of total assets and \$547 million, or 10%, of total liabilities as of June 30, 2018 and accounted for \$471 million, or 38%, and \$935 million, or 40%, of net sales for the three and six months ended June 30, 2018, respectively. As of December 31, 2017, the non-guarantor subsidiaries held \$2,587 million, or 37%, of total assets and \$569 million, or 11%, of total liabilities. For the three and six months ended June 30, 2017, the non-guarantor subsidiaries accounted for \$471 million, or 40%, and \$911 million, or 39%, of net sales, respectively. All amounts presented exclude intercompany balances.

The weighted average effective interest rate on outstanding borrowings, including the amortization of debt issuance costs and original issue discount, was 5.58% and 5.45% at June 30, 2018 and December 31, 2017, respectively.

6. DERIVATIVES AND HEDGING ACTIVITIES

Derivatives Not Designated As Hedging Instruments

The Company uses forward contracts to hedge a portion of its balance sheet foreign exchange re-measurement risk and to hedge certain planned foreign currency expenditures. As of June 30, 2018, the Company had foreign exchange contracts outstanding with maturities of up to fourteen months and aggregate notional values of \$421 million (based on exchange rates as of June 30, 2018). Unrealized gains and losses resulting from these contracts are recognized in other income (expense), net and partially offset corresponding foreign exchange gains and losses on the balances and expenditures being hedged. These instruments are not held for speculative or trading purposes, are not designated as hedges for hedge accounting purposes and are marked to market each period through earnings.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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

	Balance Sheet Location	Fair Value of Asset (Liability)	
		June 30, 2018	December 31, 2017
Foreign currency contracts	Prepaid expenses and other current assets	\$ 1,908	\$ 9,050
Foreign currency contracts	Other accrued liabilities	(5,037)	(574)
Foreign currency contracts	Other noncurrent liabilities	(309)	—
Total derivatives not designated as			

hedging instruments

\$(3,438) \$ 8,476

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:

	Location of Gain (Loss)	Gain (Loss)
Foreign Currency Forward Contracts		Recognized
Three Months Ended June 30, 2018	Other income (expense), net	\$ (19,441)
Three Months Ended June 30, 2017	Other income (expense), net	\$ 12,553
Six Months Ended June 30, 2018	Other income (expense), net	\$ (7,561)
Six Months Ended June 30, 2017	Other income (expense), net	\$ 14,409

Derivative Instruments Designated As Net Investment Hedge

The Company has a hedging strategy to designate certain foreign exchange contracts as net investment hedges to mitigate a portion of the foreign currency risk on the euro net investment in a foreign subsidiary. As of June 30, 2018, the Company held designated forward contracts with outstanding maturities of up to six months and an aggregate notional value of \$55.0 million.

In the first quarter of 2018, the Company changed the method used to assess the effectiveness of its net investment hedges from the forward rate method to the spot rate method. The Company believes the spot rate method better aligns with the underlying foreign currency exposure of the hedged net investment. Effective January 1, 2018, the spot-forward differences of the designated forward contracts are excluded from hedge effectiveness at inception and are recognized on a straight-line basis to other income (expense), net over the life of each contract. The amortization of the spot-forward differences was not material for the three or six months ended June 30, 2018.

Hedge effectiveness is assessed each quarter based on the net investment in the foreign subsidiary designated as the hedged item and the changes in the fair value of designated forward contracts based on spot rates. For hedges that meet the effectiveness requirements, changes in fair value are recorded as a component of other comprehensive income (loss), net of tax. As of June 30, 2018, there was no ineffectiveness on the instruments designated as net investment hedges.

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

		Fair Value of Asset (Liability) June 30, December 31,	
	Balance Sheet Location	2018	2017
Foreign currency contracts	Prepaid expenses and other current assets	\$2,319	\$ —
Foreign currency contracts	Other accrued liabilities	—	(403)
Total derivatives designated as net investment hedging instruments		\$2,319	\$ (403)

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The after-tax impact of the effective portion of the forward contracts designated as net investment hedging instruments, both matured and outstanding, on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) is as follows:

Foreign Currency Forward Contracts	Location of Gain (Loss)	Effective Portion of Gain (Loss) Recognized
Three Months Ended June 30, 2018	Other comprehensive income (loss), net of tax	\$ 3,051
Three Months Ended June 30, 2017	Other comprehensive income (loss), net of tax	\$ (2,996)
Six Months Ended June 30, 2018	Other comprehensive income (loss), net of tax	\$ 2,453
Six Months Ended June 30, 2017	Other comprehensive income (loss), net of tax	\$ (3,351)

7. FAIR VALUE MEASUREMENTS

The Company's financial instruments consist primarily of cash and cash equivalents, trade receivables, trade payables, debt instruments and foreign currency contracts. For cash and cash equivalents, trade receivables and trade payables, the carrying amounts of these financial instruments as of June 30, 2018 and December 31, 2017 were considered representative of their fair values due to their short terms to maturity. 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 foreign currency contracts and debt instruments as of June 30, 2018 and December 31, 2017, are as follows:

	June 30, 2018		December 31, 2017		Valuation Inputs
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Assets:					
Foreign currency contracts	\$4,227	\$4,227	\$9,050	\$9,050	Level 2
Liabilities:					
5.00% senior notes due 2027	750,000	705,975	750,000	753,750	Level 2
6.00% senior notes due 2025	1,500,000	1,531,950	1,500,000	1,591,800	Level 2

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5.50% senior notes due 2024	650,000	653,250	650,000	676,780	Level 2
5.00% senior notes due 2021	650,000	650,000	650,000	661,375	Level 2
Senior secured term loan due 2022, at par	886,250	889,551	886,250	892,343	Level 2
Foreign currency contracts	5,346	5,346	977	977	Level 2

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

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

8. SEGMENTS AND GEOGRAPHIC INFORMATION

The CommScope Connectivity Solutions (CCS) segment provides innovative fiber optic and copper cable and connectivity solutions for use in data centers and business enterprise, telecommunications, cable television and residential broadband networks. The CCS portfolio includes solutions for indoor and outdoor network applications. Indoor network solutions are found in commercial buildings and in the network core, which includes data centers, central offices and cable television headends. These solutions include optical fiber and twisted pair structured cabling solutions, intelligent infrastructure management hardware and software, high-density fiber optic connectivity, fiber management systems, patch cords and panels, pre-terminated fiber connectivity, complete cabling systems and cable assemblies for use in offices and data centers. Outdoor network solutions are found in both local-area and wide-area networks and “last-mile” fiber-to-the-home installations, including deployments of fiber-to-the-node (FTTN), fiber-to-the-premises (FTTP) and fiber-to-the-distribution point (FTTdP) to homes, businesses and cell sites. These solutions support the multichannel video, voice and high-speed data services provided by telecommunications operators and multi-system operators. The Company’s fiber optic connectivity solutions are primarily comprised of hardened connector systems, fiber distribution hubs and management systems, couplers and splitters, plug and play multiport service terminals, hardened optical terminating enclosures, high density cable assemblies, splices and splice closures.

The CommScope Mobility Solutions (CMS) segment provides the integral building blocks for cellular base station sites and related connectivity; indoor, small cell and distributed antenna wireless systems; and wireless network backhaul planning and optimization products and services. These solutions enable wireless operators to increase spectral efficiency and enhance cellular coverage and capacity in challenging network conditions such as commercial buildings, urban areas, stadiums and transportation systems. The CMS segment focuses on all aspects of the radio access network (RAN) from the macro through the metro, to the indoor layer. Macro cell solutions can be found at wireless tower sites and on rooftops and include base station antennas, microwave antennas, hybrid fiber-feeder and power cables, coaxial cables, connectors and filters. Metro cell solutions can be found on street poles and on other urban, outdoor structures and include radio frequency (RF) delivery and connectivity solutions, equipment housing and concealment. These fully integrated outdoor systems are comprised of specialized antennas, filters/combiners, backhaul solutions, intra-system cabling and power distribution, all minimized to fit an urban environment. Distributed antenna systems and small cell indoor solutions allow wireless operators to increase spectral efficiency and thereby extend and enhance cellular coverage and capacity in challenging network conditions.

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

	June 30, 2018	December 31, 2017
Identifiable segment-related assets:		
CCS	\$4,468.5	\$ 4,546.0
CMS	2,043.5	1,995.8
Total identifiable segment-related assets	6,512.0	6,541.8
Reconciliation to total assets:		
Cash and cash equivalents	545.7	454.0
Deferred income tax assets	48.2	45.9

Total assets	\$7,105.9	\$ 7,041.7
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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales:				
CCS	\$740.5	\$725.7	\$1,414.1	\$1,407.3
CMS	499.4	448.4	946.3	904.1
Consolidated net sales	\$1,239.9	\$1,174.1	\$2,360.4	\$2,311.4
Segment adjusted operating income:				
CCS	\$142.9	\$145.6	\$251.6	\$260.2
CMS	108.2	95.4	188.1	196.8
Total segment adjusted operating income	251.1	241.0	439.7	457.0
Amortization of intangible assets	(66.4)	(67.0)	(133.7)	(134.6)
Restructuring costs, net	(7.2)	(13.8)	(12.7)	(19.2)
Equity-based compensation	(11.8)	(11.2)	(22.4)	(20.6)
Integration and transaction costs	(1.0)	(12.6)	(2.5)	(26.2)
Consolidated operating income	\$164.7	\$136.4	\$268.4	\$256.4
Depreciation expense:				
CCS	\$14.2	\$14.5	\$28.3	\$28.9
CMS	5.7	5.7	11.2	11.3
Consolidated depreciation expense	\$19.9	\$20.2	\$39.5	\$40.2
Additions to property, plant and equipment:				
CCS	\$12.6	\$11.7	\$21.4	\$20.5
CMS	4.6	6.0	9.4	10.1
Consolidated additions to property, plant and equipment	\$17.2	\$17.7	\$30.8	\$30.6

Sales to customers located outside of the U.S. comprised 42.4% and 44.0% of total net sales for the three and six months ended June 30, 2018, respectively, compared to 45.2% and 44.1% of total net sales for the three and six months ended June 30, 2017, respectively. Sales by geographic region, based on the destination of product shipments, were as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
United States	\$714.6	\$643.9	\$1,322.1	\$1,292.2

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Europe, Middle East and Africa	253.4	235.8	503.1	467.6
Asia Pacific	183.2	203.8	371.8	385.7
Caribbean and Latin America	61.6	56.1	117.7	114.9
Canada	27.1	34.5	45.7	51.0
Consolidated net sales	\$1,239.9	\$1,174.1	\$2,360.4	\$2,311.4

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

9. RESTRUCTURING COSTS

The Company incurs costs associated with restructuring initiatives intended to improve overall operating performance and profitability. The costs related to restructuring actions are generally composed of employee-related costs, lease termination costs and fixed asset related costs. 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 include 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. Fixed asset related costs are expensed as incurred. Cash paid is net of proceeds received from the sale of related assets.

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.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
CCS	\$4,687	\$9,596	\$7,058	\$14,352
CMS	2,531	4,177	5,610	4,809
Total	\$7,218	\$13,773	\$12,668	\$19,161

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

	June 30, December 31,	
	2018	2017
Other accrued liabilities	\$14,211	\$ 24,961
Other noncurrent liabilities	5,399	7,036
Total liability	\$19,610	\$ 31,997

Cost Alignment Restructuring Actions

Prior to the acquisition of TE Connectivity's Broadband Network Solutions (BNS) business in August 2015, 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. As of June 30, 2018, these actions were substantially complete except for a \$4.4 million liability for lease termination costs, for which the Company expects to make cash payments of \$0.9 million during the remainder of 2018 and make the remaining payments of \$3.5 million between 2019 and 2022.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

BNS Integration Restructuring Actions

Following the acquisition of BNS, the Company initiated a series of restructuring actions, which are currently ongoing, to integrate and streamline operations and achieve cost synergies. 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 at March 31, 2018	\$ 16,097	\$ 904	\$ —	\$ 17,001
Additional charge recorded	7,092	151	(83)	7,160
Cash paid	(8,131)	(378)	(248)	(8,757)
Consideration received	—	—	2,235	2,235
Foreign exchange and other non-cash items	(503)	(25)	(1,904)	(2,432)
Balance at June 30, 2018	\$ 14,555	\$ 652	\$ —	\$ 15,207
Balance at December 31, 2017	\$ 25,588	\$ 1,080	\$ —	\$ 26,668
Additional charge recorded	11,030	809	708	12,547
Cash paid	(21,823)	(1,222)	(395)	(23,440)
Consideration received	—	—	4,514	4,514
Foreign exchange and other non-cash items	(240)	(15)	(4,827)	(5,082)
Balance at June 30, 2018	\$ 14,555	\$ 652	\$ —	\$ 15,207

The BNS integration actions include the announced closures 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 \$122.2 million since the BNS acquisition for integration actions. No significant additional restructuring charges are expected to be incurred to complete the previously announced BNS integration initiatives. The Company expects to make cash payments of \$10.2 million during the remainder of 2018 and additional cash payments of \$5.0 million between 2019 and 2022. Future restructuring actions may be identified and the resulting charges and cash requirements may be material.

10. EMPLOYEE BENEFIT PLANS

Pension Plans

	Three Months Ended June 30,			
	U.S. Plans		Non-U.S. Plans	
	2018	2017	2018	2017
Service cost	\$—	\$—	\$1,023	\$1,197
Interest cost	1,323	1,490	1,316	1,312
Recognized actuarial loss	120	164	315	378

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Amortization of prior service cost	—	—	10	—
Expected return on plan assets	(1,597)	(1,687)	(1,954)	(1,877)
Net periodic benefit cost (income)	\$(154)	\$(33)	\$710	\$1,010

	Six Months Ended			
	June 30,			
	U.S. Plans		Non-U.S. Plans	
	2018	2017	2018	2017
Service cost	\$—	\$—	\$2,187	\$2,361
Interest cost	2,646	2,980	2,669	2,583
Recognized actuarial gain	240	328	635	745
Amortization of prior service credit	—	—	21	—
Expected return on plan assets	(3,194)	(3,374)	(3,958)	(3,696)
Net periodic benefit cost (income)	\$(308)	\$(66)	\$1,554	\$1,993

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Service cost is primarily included in cost of sales and selling, general and administrative expenses while the other components of net periodic benefit cost (income) are included in other income (expense), net.

The Company contributed \$4.6 million and \$5.7 million to its defined benefit pension plans during the three and six months ended June 30, 2018, respectively. During the remainder of 2018, the Company anticipates making additional contributions of approximately \$3.4 million to these plans.

During the first quarter of 2018, the Company communicated its intent to terminate a significant U.S. defined benefit pension plan. The Company contributed \$3.0 million to the plan during the three and six months ended June 30, 2018, which was needed to substantially fund the termination of the plan, which will be effected through the purchase of annuities. This contribution is included in the contributed amounts discussed above. Upon termination, which is expected in late 2018 or early 2019, the Company expects to recognize a pretax charge in other income (expense), net, primarily related to unrecognized net actuarial losses currently recorded in accumulated other comprehensive loss of \$27 million to \$29 million.

Other Postretirement Benefit Plans

The Company has amended certain of its U.S. postretirement medical plans to terminate benefits as of December 31, 2018. The Company expects to recognize a pretax gain in other income (expense), net, in the fourth quarter of 2018 related to unrecognized prior service credits and unrecognized net actuarial gains currently recorded in accumulated other comprehensive loss of \$9 million to \$10 million.

11. STOCKHOLDERS' EQUITY

Stock Repurchase Program

On August 3, 2017, the Company announced its Board of Directors had authorized the repurchase of up to \$100.0 million of the Company's outstanding common stock. No shares were repurchased under this plan during the three or six months ended June 30, 2018. The remaining authorization under the plan was \$25.0 million at June 30, 2018 and expires on July 31, 2018.

Equity-Based Compensation Plans

As of June 30, 2018, \$80.9 million of unrecognized compensation costs related to unvested stock options, restricted stock units (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 June 30, 2018.

The following table shows the location of equity-based compensation expense on the statement of operations:

Three Months		Six Months Ended	
Ended		June 30,	
June 30,		June 30,	
2018	2017	2018	2017

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Selling, general and administrative	\$9,023	\$8,517	\$17,063	\$15,676
Cost of sales	1,501	1,418	2,833	2,615
Research and development	1,324	1,251	2,500	2,307
Total equity-based compensation expense	\$11,848	\$11,186	\$22,396	\$20,598

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 three years following the grant date and have a contractual term of ten years.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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

	Shares	Weighted Average Option Exercise Price Per Share	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at March 31, 2018	4,901	\$ 15.21		
Granted	33	\$ 39.46		
Exercised	(102)	\$ 9.70		
Forfeited	(48)	\$ 34.73		
Options outstanding at June 30, 2018	4,784	\$ 15.30	4.3	\$ 75,053
Options outstanding at December 31, 2017	4,830	\$ 13.01		
Granted	477	\$ 38.42		
Exercised	(432)	\$ 11.37		
Forfeited	(91)	\$ 33.60		
Options outstanding at June 30, 2018	4,784	\$ 15.30	4.3	\$ 75,053
Options vested at June 30, 2018	3,957	\$ 10.80	3.3	\$ 74,702
Options unvested at June 30, 2018	827	\$ 36.80	9.1	\$ 351

The exercise prices of outstanding options at June 30, 2018 were in the following ranges (in thousands, except per share data and years):

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Shares	Weighted Average Contractual Life in Years	Weighted Average Exercise Price Per Share	Shares	Weighted Average Exercise Price Per Share
\$2.96 to \$5.74	2,502	2.4	\$ 5.42	2,502	\$ 5.42
\$5.75 to \$22.99	653	1.9	\$ 8.58	653	\$ 8.58
\$23.00 to \$42.32	1,629	8.1	\$ 33.16	802	\$ 29.40
\$2.96 to \$42.32	4,784	4.3	\$ 15.30	3,957	\$ 10.80

The Company uses the Black-Scholes model to estimate the fair value of stock option awards at the date of grant. Key inputs and assumptions used in the model include the grant date fair value of common stock, exercise price of the award, the expected option term, the risk-free interest rate, stock price volatility and the Company's projected dividend

yield. The expected term represents the period over which the Company's employees are expected to hold their options. The risk-free interest rate reflects the yield on zero-coupon U.S. treasury securities with a term equal to the option's expected term. Expected volatility is derived based on the historical volatility of the Company's stock. The Company's projected dividend yield is zero. The Company believes the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in estimating the fair values of its stock options. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards. Subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The following table presents the weighted average assumptions used to estimate the fair value of stock option awards granted during the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Expected option term (in years)	6.0	6.0	6.0	6.0
Risk-free interest rate	2.6%	2.0%	2.7 %	2.0 %
Expected volatility	35.0%	40.0%	35.0 %	40.0 %
Weighted average exercise price	\$39.46	\$42.32	\$38.42	\$38.00
Weighted average fair value at grant date	\$15.19	\$17.48	\$14.86	\$15.72

Restricted Stock Units

RSUs entitle the holder to shares of common stock after a vesting period that generally ranges from one to three years. The fair value of the awards is determined on the grant date based on the Company's stock price.

The following table summarizes the RSU activity (in thousands, except per share data):

	Weighted Average Grant Restricted Stock Date Fair Value	
	Units	Per Share
Non-vested RSUs at March 31, 2018	2,217	\$ 35.51
Granted	54	\$ 30.77
Vested and shares issued	(36)	\$ 35.02
Forfeited	(80)	\$ 34.64
Non-vested RSUs at June 30, 2018	2,155	\$ 35.43
Non-vested RSUs at December 31, 2017	2,279	\$ 31.83
Granted	1,120	\$ 37.98
Vested and shares issued	(1,073)	\$ 30.77
Forfeited	(171)	\$ 33.35
Non-vested RSUs at June 30, 2018	2,155	\$ 35.43

Performance Share Units

PSUs are stock awards in which the number of shares ultimately received by the employee depends on Company performance against specified targets. Such awards typically vest over three years and the number of shares issued can vary from 0% to 200% of the number of PSUs granted, depending on performance. The fair value of each PSU is determined on the date of grant based on the Company's stock price. The ultimate number of shares issued and the

related compensation cost recognized is based on the final performance metrics compared to the targets specified in the grants.

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CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

The following table summarizes the PSU activity (in thousands, except per share data):

		Weighted
		Average Grant
	Performance	Date Fair Value
	Share Units	Per Share
Non-vested PSUs at March 31, 2018	300	\$ 33.45
Granted	13	\$ 39.46
Vested and shares issued	(1)	\$ 27.64
Forfeited	(18)	\$ 28.01
Non-vested PSUs at June 30, 2018	294	\$ 34.07
Non-vested PSUs at December 31, 2017	344	\$ 26.75
Granted	184	\$ 38.42
Vested and shares issued	(203)	\$ 26.80
Forfeited	(31)	\$ 26.27
Non-vested PSUs at June 30, 2018	294	\$ 34.07

12. SUBSEQUENT EVENTS

The Company will repay \$400 million of its senior secured term loan due 2022 on July 31, 2018. The payment is expected to be made using \$250 million of cash on hand and \$150 million borrowed under the Company's asset-based revolving credit facility.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following narrative is an analysis of the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017. The discussion is provided to increase the understanding of, and should be read in conjunction with, the unaudited condensed consolidated financial statements and accompanying notes included in this report as well as the audited consolidated financial statements, related notes thereto and management's discussion and analysis of financial condition and results of operations, including management's discussion and analysis regarding the application of critical accounting policies as well as the risk factors, included in our 2017 Annual Report on Form 10-K.

We discuss certain financial measures in management's discussion and analysis of financial condition and results of operations, including Adjusted Operating Income and Adjusted EBITDA, that differ from measures calculated in accordance with generally accepted accounting principles in the United States (GAAP). See "Reconciliation of Non-GAAP Measures" included elsewhere in this quarterly report for more information about these non-GAAP financial measures, including our reasons for including the measures and material limitations with respect to the usefulness of the measures.

Overview

We are a global provider of infrastructure solutions for the core, access and edge layers of communication networks. Our solutions and services for wired and wireless networks enable high-bandwidth data, video and voice applications. Our global leadership position is built upon innovative technology, broad solution offerings, high-quality and cost-effective customer solutions, and global manufacturing and distribution scale.

For the three and six months ended June 30, 2018, our net sales increased by 5.6% and 2.1%, respectively, from the prior year periods. Operating income increased 20.7% and 4.7%, for the three and six months ended June 30, 2018, respectively, compared to the prior year periods. Non-GAAP adjusted operating income increased 4.2% for the three months ended June 30, 2018 but decreased by 3.8% for the six months ended June 30, 2018 compared to the same prior year periods. Net income increased 18.7% and 12.0% for the three and six months ended June 30, 2018, respectively. Diluted earnings per share increased 21.4% and 13.3% for the three and six months ended June 30, 2018, respectively.

CRITICAL ACCOUNTING POLICIES

Other than the changes to revenue recognition policies as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, as of January 1, 2018, there have been no material changes in our critical accounting policies or significant accounting estimates as disclosed in our 2017 Annual Report on Form 10-K. See the discussion in Note 1 in the notes to unaudited condensed consolidated financial statements included in this report for further information regarding the adoption of ASU No. 2014-09.

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 WITH THE THREE AND SIX MONTHS ENDED JUNE 30, 2017

	Three Months Ended					
	June 30, 2018		2017		\$	%
	Amount	% of Sales	Amount	% of Sales		
	(dollars in millions, except per share amounts)					
Net sales	\$1,239.9	100.0%	\$1,174.1	100.0%	\$65.8	5.6 %
Gross profit	471.3	38.0	471.8	40.2	(0.5)	(0.1)
Operating income	164.7	13.3	136.4	11.6	28.3	20.7
Non-GAAP adjusted operating income ⁽¹⁾	251.1	20.3	241.0	20.5	10.1	4.2
Net income	65.9	5.3 %	55.5	4.7 %	10.4	18.7
Diluted earnings per share	\$0.34		\$0.28		\$0.06	21.4 %
	Six Months Ended					
	June 30, 2018		2017		\$	%
	Amount	% of Sales	Amount	% of Sales		
	(dollars in millions, except per share amounts)					
Net sales	\$2,360.4	100.0%	\$2,311.4	100.0%	\$49.0	2.1 %
Gross profit	882.7	37.4	925.6	40.0	(42.9)	(4.6)
Operating income	268.4	11.4	256.4	11.1	12.0	4.7
Non-GAAP adjusted operating income ⁽¹⁾	439.7	18.6	457.0	19.8	(17.3)	(3.8)
Net income	99.7	4.2 %	89.0	3.9 %	10.7	12.0
Diluted earnings per share	\$0.51		\$0.45		\$0.06	13.3 %

(1) See "Reconciliation of Non-GAAP Measures."

Net sales

	Three Months Ended				Six Months Ended			
	June 30,		\$	%	June 30,		\$	%
	2018	2017			2018	2017		
	(dollars in millions)							
Net sales	\$1,239.9	\$1,174.1	\$ 65.8	5.6 %	\$2,360.4	\$2,311.4	\$ 49.0	2.1 %
Domestic	714.6	643.9	70.7	11.0	1,322.1	1,292.2	29.9	2.3
International	525.3	530.2	(4.9)	(0.9)	1,038.3	1,019.2	19.1	1.9

The increase in net sales for the three and six months ended June 30, 2018 compared to the same prior year periods was driven mostly by higher net sales in the United States (U.S.) and the Europe, Middle East and Africa (EMEA) region and to a lesser extent in the Caribbean and Latin America (CALA) region. The increases in the U.S. were driven mainly by government initiatives to promote the expansion of wireless networks. These increases in the U.S. were partially offset by reductions in certain selling prices. The increases in the EMEA region were primarily driven by favorable foreign exchange rate changes. These increases in the U.S., EMEA region and CALA region net sales were partially offset by decreases in the Asia Pacific (APAC) region. Net sales to customers located outside of the U.S. comprised 42.4% and 44.0% of total net sales for the three and six months ended June 30, 2018, respectively, compared to 45.2% and 44.1% for the three and six months ended June 30, 2017, respectively. Excluding the impacts related to the EMEA region, foreign exchange rate changes were not significant for the three or six months ended June 30, 2018 compared to the prior year periods.

Net sales from the CommScope Connectivity Solutions (CCS) segment increased 2.0% and 0.5% for the three and six months ended June 30, 2018, respectively, compared to the prior year periods primarily due to higher sales in the EMEA region. CommScope Mobility Solutions (CMS) segment net sales increased 11.4% and 4.7% for the three and six months ended June 30, 2018, respectively, compared to the prior year periods due largely to strong U.S. net sales. For further details by segment, see the section titled "Segment Results" below.

Gross profit, SG&A expense and R&D expense

	Three Months Ended				Six Months Ended			
	June 30, 2018		2017		June 30, 2018		2017	
	\$	%	\$	%	\$	%	\$	%
	(dollars in millions)							
Gross profit	\$471.3	\$471.8	\$(0.5)	(0.1)%	\$882.7	\$925.6	\$(42.9)	(4.6)%
As a percent of sales	38.0%	40.2%			37.4%	40.0%		
SG&A expense	185.2	207.6	(22.4)	(10.8)%	370.3	419.5	(49.2)	(11.7)%
As a percent of sales	14.9%	17.7%			15.7%	18.1%		
R&D expense	47.8	47.0	0.8	1.7	97.6	96.0	1.6	1.7
As a percent of sales	3.9%	4.0%			4.1%	4.2%		

Gross profit (net sales less cost of sales)

Despite higher sales volumes and favorable geographic mix, gross profit for the three months ended June 30, 2018 remained relatively unchanged and gross profit as a percentage of sales declined 220 basis points from the same prior year period, primarily due to reductions in certain selling prices, higher material costs and unfavorable foreign exchange rate changes. For the six months ended June 30, 2018, gross profit and gross profit as a percentage of sales decreased primarily due to reductions in certain selling prices, higher material costs and unfavorable foreign exchange rate changes, despite higher sales volumes.

Selling, general and administrative expense

Selling, general and administrative (SG&A) expense for the three and six months ended June 30, 2018 was lower than the prior year periods due primarily to benefits from cost reduction initiatives and lower costs related to the integration of the Broadband Network Solutions (BNS) business acquired from TE Connectivity in 2015. These decreases in costs were partially offset by higher incentive compensation expense and higher bad debt expense during the three and six months ended June 30, 2018. SG&A expense as a percentage of sales decreased from the prior year period as a result of these overall net reductions in expense and higher sales.

Research and development expense

Research and development (R&D) expense and R&D expense as a percentage of sales were relatively unchanged for the three and six months ended June 30, 2018 compared to the prior year periods. R&D activities generally relate to ensuring that our products are capable of meeting the evolving technological needs of our customers, bringing new products to market and modifying existing products to better serve our customers.

Amortization of purchased intangible assets and Restructuring costs, net

	Three Months Ended			Six Months Ended		
	June 30, 2018	2017	Change	June 30, 2018	2017	Change
	(dollars in millions)					
Amortization of purchased intangible assets	\$66.4	\$67.0	\$(0.6)	\$133.7	\$134.6	\$(0.9)
Restructuring costs, net	7.2	13.8	(6.6)	12.7	19.2	(6.5)

Amortization of purchased intangible assets

The amortization of purchased intangible assets decreased for the three and six months ended June 30, 2018 compared to the prior year periods because certain of our intangible assets became fully amortized. This decrease was partially offset by the amortization of intangible assets related to the Cable Exchange acquisition that occurred in August 2017.

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Restructuring costs, net

Restructuring costs, net for the three and six months ended June 30, 2018 and 2017 were primarily related to the continuing integration of the BNS business. No significant additional restructuring charges are expected to be incurred to complete the previously announced BNS integration initiatives. From a cash perspective, we paid \$9.8 million and \$25.0 million to settle restructuring liabilities during the three and six months ended June 30, 2018, respectively, and expect to pay an additional \$11.1 million by the end of 2018 related to restructuring actions that have been initiated. In addition, we expect to pay \$8.5 million between 2019 and 2022 related to restructuring actions that have been initiated. Additional restructuring actions may be identified and the resulting charges and cash requirements may be material.

Net interest expense, Other income (expense), net and Income tax expense

	Three Months Ended			Six Months Ended		
	June 30, 2018	2017	\$ Change	June 30, 2018	2017	\$ Change
	(in millions)					
Net interest expense	\$(58.7)	\$(59.7)	\$ 1.0	\$(117.0)	\$(128.4)	\$ 11.4
Other income (expense), net	(3.1)	2.9	(6.0)	(2.1)	(12.5)	10.4
Income tax expense	(37.0)	(24.1)	(12.9)	(49.6)	(26.5)	(23.1)

Net interest expense

Net interest expense for the three months ended June 30, 2018 decreased compared to the prior year period due to lower long-term debt balances as a result of the voluntary repayments in the second half of 2017 on our senior secured term loan and the amendment to reduce the interest rate margin on our senior secured term loan in May 2017, partially offset by an increase in LIBOR. The decrease in net interest expense for the six months ended June 30, 2018 compared to the prior year period was driven by the write-off of \$9.6 million of debt issuance costs and original issue discount during the six months ended June 30, 2017 in connection with the redemption of \$500.0 million of 4.375% senior secured notes due 2020 (the 2020 Notes) and the prepayment of \$250.0 million of senior secured term loans. The redemption of the 2020 Notes and the prepayment of the senior secured term loans were substantially funded by the issuance in March 2017 of \$750.0 million of 5.00% senior notes due 2027.

Our weighted average effective interest rate on outstanding borrowings, including the amortization of debt issuance costs and original issue discount, was 5.58% at June 30, 2018, 5.45% at December 31, 2017 and 5.36% at June 30, 2017.

Other income (expense), net

The change in other income (expense), net for the three months ended June 30, 2018 compared to the prior year period was partially due to the impact in the prior year period of a \$6.0 million gain on the sale of a portion of our investment in Hydrogenics Corporation (Hydrogenics). The change in other income (expense), net for the six months ended June 30, 2018 compared to the prior year period was mainly the result of a redemption premium of \$14.8 million incurred during the first quarter of 2017 in connection with the redemption of the 2020 Notes offset by \$6.6 million in gains recognized during the six months ended June 30, 2017 related to the sale of a portion of our investment in Hydrogenics.

Foreign exchange losses of \$6.4 million and \$8.7 million were included in other income (expense), net for the three and six months ended June 30, 2018, respectively, compared to foreign exchange losses of \$3.5 million and \$5.4

million for the three and six months ended June 30, 2017, respectively.

Net periodic benefit income of \$2.3 million and \$4.6 million was included in other income (expense), net for the three and six months ended June 30, 2018, respectively, as a result of the adoption of ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Other income (expense), net for the three and six months ended June 30, 2017 was recast to include \$1.4 million and \$2.8 million, respectively, of net periodic benefit income as a result of the new guidance. See the discussion in Note 1 in the notes to unaudited condensed consolidated financial statements included in this report for further information regarding the adoption of this new accounting guidance.

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During the first quarter of 2018, we communicated our intent to terminate a significant U.S. defined benefit pension plan to be settled through the purchase of annuities. Upon settlement, which is expected in late 2018 or early 2019, we expect to recognize a pretax charge in other income (expense), net, primarily related to unrecognized net actuarial losses currently recorded in accumulated other comprehensive loss of \$27 million to \$29 million. We have also amended certain of our U.S. postretirement medical plans to terminate benefits as of December 31, 2018. We expect to recognize a pretax gain in other income (expense), net, in the fourth quarter of 2018 related to unrecognized prior service credits and unrecognized net actuarial gains currently recorded in accumulated other comprehensive loss of \$9 million to \$10 million.

Income tax expense

On December 22, 2017, the U.S. government enacted tax reform legislation that reduced the corporate income tax rate from 35% to 21% and included a broad range of complex provisions affecting the taxation of businesses. Generally, financial statement recognition of the new legislation would be required to be completed in the period of enactment; however, in response to the complexities of this new legislation, the Securities and Exchange Commission (SEC) staff issued Staff Accounting Bulletin No. 118 to provide companies with transitional relief. Specifically, when the initial accounting for items under the new legislation is incomplete, the guidance allows the recognition of provisional amounts when reasonable estimates can be made or the continued application of the prior tax law if a reasonable estimate of the effect cannot be made. The SEC staff has provided up to one year for companies to finalize the accounting for the effects of this new legislation. Although no changes were made to the provisional amounts during the three or six months ended June 30, 2018, we expect to refine the calculations as additional analysis is completed and as a more thorough understanding of the new tax law is reached. The changes made could be material to income tax expense.

The effective income tax rate of 36.0% and 33.2% for the three and six months ended June 30, 2018, respectively, was higher than the statutory rate of 21.0% primarily due to the effect of the provision for state income taxes, the impact of earnings in foreign jurisdictions that are taxed at rates higher than the U.S., the impact of the new U.S. anti-deferral provisions and the impact of repatriation taxes. These increases to the effective tax rate were partially offset by the favorable impact of \$0.4 million and \$4.7 million of excess tax benefits related to equity-based compensation awards for the three and six months ended June 30, 2018, respectively.

Our effective income tax rate of 30.3% and 22.9% for the three and six months ended June 30, 2017, respectively, was lower than the statutory rate of 35.0% primarily due the favorable impact of \$4.4 million and \$13.1 million of excess tax benefits related to equity-based compensation awards for the three and six months ended June 30, 2017, respectively. The effective income tax rate was also favorably affected by the impact of earnings in foreign jurisdictions that we did not plan to repatriate. These earnings were generally taxed at rates lower than the U.S. statutory rate. Offsetting these decreases for the three and six months ended June 30, 2017 was the effect of the provision for state income taxes.

Segment Results

	Three Months Ended									
	June 30, 2018				2017					
	Amount		% of Net		Amount		% of Net		\$ %	
Net sales by segment:										
CCS	\$740.5	59.7	%	\$725.7	61.8	%	\$14.8	2.0	%	
CMS	499.4	40.3		448.4	38.2		51.0	11.4		
Consolidated net sales	\$1,239.9	100.0	%	\$1,174.1	100.0	%	\$65.8	5.6	%	
Operating income by segment:										
CCS	\$85.4	11.5	%	\$74.1	10.2	%	\$11.3	15.2	%	
CMS	79.3	15.9		62.3	13.9		17.0	27.3		
Consolidated operating income	\$164.7	13.3	%	\$136.4	11.6	%	\$28.3	20.7	%	
Non-GAAP adjusted operating income by segment: ⁽¹⁾										
CCS	\$142.9	19.3	%	\$145.6	20.1	%	\$(2.7)	(1.9)	%	
CMS	108.2	21.7		95.4	21.3		12.8	13.4		
Non-GAAP consolidated adjusted operating income ⁽¹⁾	\$251.1	20.3	%	\$241.0	20.5	%	\$10.1	4.2	%	

	Six Months Ended									
	June 30, 2018				2017					
	Amount		% of Net		Amount		% of Net		\$ %	
Net sales by segment:										
CCS	\$1,414.1	59.9	%	\$1,407.3	60.9	%	\$6.8	0.5	%	
CMS	946.3	40.1		904.1	39.1		42.2	4.7		
Consolidated net sales	\$2,360.4	100.0	%	\$2,311.4	100.0	%	\$49.0	2.1	%	
Operating income by segment:										
CCS	\$138.5	9.8	%	\$121.1	8.6	%	\$17.4	14.4	%	
CMS	129.9	13.7		135.3	15.0		(5.4)	(4.0)		

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Consolidated operating income	\$268.4	11.4	%	\$256.4	11.1	%	\$12.0	4.7	%
Non-GAAP adjusted operating income by									
segment: ⁽¹⁾									
CCS	\$251.6	17.8	%	\$260.2	18.5	%	\$(8.6)	(3.3)	%
CMS	188.1	19.9		196.8	21.8		(8.7)	(4.4)	
Non-GAAP consolidated adjusted operating									
income ⁽¹⁾	\$439.7	18.6	%	\$457.0	19.8	%	\$(17.3)	(3.8)	%

(1) See “Reconciliation of Non-GAAP Measures.”

CommScope Connectivity Solutions Segment

Our CCS segment provides innovative fiber optic and copper cable and connectivity solutions for use in data centers and business enterprise, telecommunications, cable television and residential broadband networks. Our CCS portfolio includes solutions for indoor and outdoor network applications. Indoor network solutions are found in commercial buildings and in the network core. They are primarily delivered through our SYSTIMAX, NETCONNECT and Uniprise brands and offer a complete end-to-end physical layer solution, including optical fiber and twisted pair structured cable solutions, intelligent infrastructure management hardware and software and network rack and cabinet enclosures. Our outdoor network solutions are found in access and edge networks and include a broad portfolio of fiber-to-the-home equipment and headend solutions. Our fiber optic connectivity solutions are primarily comprised of hardened connector systems, fiber distribution hubs and management systems, couplers and splitters, plug and play multiport service terminals, hardened optical terminating enclosures, high density cable assemblies, splices and splice closures.

CCS segment net sales were higher in the three and six months ended June 30, 2018 compared to the prior year periods primarily due to increases in net sales in the EMEA region that were partly driven by favorable foreign exchange rate changes. The CCS segment also saw slight increases in the APAC region and the CALA region during the three and six months ended June 30, 2018. CCS segment net sales in the North American region were relatively unchanged for the three months ended June 30, 2018 but decreased for the six months ended June 30, 2018. Excluding the favorable impacts to the EMEA region, foreign exchange rate changes did not affect CCS segment net sales significantly for the three or six months ended June 30, 2018 compared to the prior year periods.

CCS segment operating income increased while non-GAAP adjusted operating income decreased during the three and six months ended June 30, 2018 compared to the prior year periods. CCS segment operating income benefitted from lower integration costs and restructuring costs, which are excluded from non-GAAP adjusted operating income. Both operating income and non-GAAP adjusted operating income were reduced by higher material costs, selling price reductions, unfavorable foreign exchange rate changes and higher bad debt expense. These reductions were partially offset by benefits from cost savings initiatives. See “Reconciliation of Non-GAAP Measures.”

We expect demand for our indoor network CCS products to be driven by global information technology spending and spending in core networks as the ongoing need for bandwidth and intelligence in the network continues to create demand for high-performance connectivity solutions. We expect demand for our outdoor network CCS products to be driven by global deployment of fiber-optic solutions for fiber-to-the-X applications, new services, competitive dynamics in the access market, ongoing maintenance requirements of cable networks and residential construction market activity in North America. Spending patterns by service providers and data center customers can be volatile. Uncertain global economic conditions, variability in the levels of commercial and residential construction activity, consolidation among service providers, uncertain levels of information technology spending and reductions in the levels of distributor inventories may negatively affect demand for our products. The increasing demand for fiber solutions is expected to be somewhat offset by decelerating demand for copper solutions in networks. Despite ongoing pricing pressure, we expect sales growth in the U.S. in 2018.

CommScope Mobility Solutions Segment

Our CMS segment, primarily through our Andrew brand, is a global leader in providing the integral building blocks for cellular base station sites and related connectivity; indoor, small cell and distributed antenna wireless systems; and wireless network backhaul planning and optimization products and services. The primary sources of revenue for our CMS segment are (i) product sales of primarily passive transmission devices for the wireless infrastructure market including base station and microwave antennas, hybrid fiber-feeder and power cables, coaxial cable connectors and equipment primarily used by wireless operators, (ii) product sales of active electronic devices and services including

filters and tower-mounted amplifiers and (iii) engineering and consulting services and products such as distributed antenna systems that are used to extend and enhance the coverage of wireless networks in areas where signals are difficult to send or receive, such as large buildings, urban areas, stadiums and transportation systems.

CMS segment net sales increased during the three and six months ended June 30, 2018 compared to the prior year periods, driven by strong sales volumes in the U.S. offset partially by reductions in certain selling prices. The CMS segment also saw increases, though less pronounced, in the EMEA region and CALA region during the three and six months ended June 30, 2018. The increase in CMS segment net sales in the EMEA region was almost all due to favorable foreign exchange rate changes. The increases in CMS segment net sales were offset partially by decreases in net sales during the three and six months ended June 30, 2018 in the APAC region. Excluding the favorable impacts to the EMEA region, foreign exchange rate changes did not affect CMS segment net sales significantly for the three or six months ended June 30, 2018 compared to the prior year periods.

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CMS segment operating income and non-GAAP adjusted operating income increased for the three months ended June 30, 2018 compared to the prior year periods primarily due to higher sales volume and favorable geographic mix offset partially by selling price reductions and unfavorable foreign exchange rate changes. CMS segment operating income and non-GAAP adjusted operating income decreased for the six months ended June 30, 2018 primarily due to selling price reductions and unfavorable foreign exchange rate changes partially offset by higher sales volume and favorable geographic mix. See “Reconciliation of Non-GAAP Measures.”

Our sales to wireless operators are volatile. We expect longer-term demand for our CMS products to be positively affected by wireless coverage and capacity expansion in emerging markets and growth in mobile data services and network capacity requirements in developed markets. In addition, we expect demand for our CMS products to be favorably affected by government initiatives to promote the expansion of wireless networks (e.g., FirstNet) over the next few years. We also expect longer-term demand for our CMS products to be positively affected by the introduction of 5G technology. In preparation for 5G networks, we continue to invest heavily in R&D, support customer trials and participate in industry forums to help shape 5G standards. Uncertainty in the global economy or a particular region or consolidation among wireless operators may slow the growth or cause a decline in capital spending by wireless operators and negatively impact our net sales. Despite ongoing pricing pressure, we expect sales growth in the U.S. in 2018.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes certain key measures of our liquidity and capital resources.

	June 30,	December 31,	\$	%
	2018	2017	Change	Change
	(dollars in millions)			
Cash and cash equivalents	\$545.7	\$ 454.0	\$ 91.7	20.2 %
Working capital ⁽¹⁾ , excluding cash and cash				
equivalents	841.3	766.2	75.1	9.8
Availability under revolving credit facility	506.4	425.4	81.0	19.0
Long-term debt	4,374.2	4,369.4	4.8	0.1
Total capitalization ⁽²⁾	6,077.5			