

Edgar Filing: COMMSCOPE INC - Form 10-Q

COMMSCOPE INC
Form 10-Q
August 14, 2001

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, 2001

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 001-12929

CommScope, Inc.

(Exact name of registrant as specified in its charter)

Delaware 36-4135495
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1375 Lenoir-Rhyne Boulevard, P.O. Box 339
Hickory, North Carolina
(Address of principal executive offices)
28603
(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

As of July 31, 2001 there were 51,424,970 shares of Common Stock outstanding.

CommScope, Inc.

Edgar Filing: COMMSCOPE INC - Form 10-Q

Form 10-Q
June 30, 2001
Table of Contents

	Page No. -----
Part I - Financial Information (Unaudited):	
Item 1. Condensed Consolidated Financial Statements:	
Condensed Consolidated Statements of Income	3
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Cash Flows	5
Condensed Consolidated Statements of Stockholders' Equity and Comprehensive Income	6
Notes to Condensed Consolidated Financial Statements	7 - 13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14 - 18
Part II - Other Information:	
Item 4. Submission of Matters to a Vote of Security Holders	19
Item 6. Exhibits and Reports on Form 8-K	19
Signatures	20

2

CommScope, Inc.
Condensed Consolidated Statements of Income
(Unaudited--in thousands, except net income per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Net sales	\$ 199,899	\$ 241,244	\$ 417,259	\$ 445,183
Operating costs and expenses:				
Cost of sales	151,589	176,863	316,155	328,449
Selling, general and administrative	20,579	20,080	42,545	38,477
Research and development	2,145	4,955	3,625	8,593
Amortization of goodwill	1,341	1,342	2,683	2,685
Impairment charges for fixed assets and investments (Note 7)	12,615	--	12,615	--
Total operating costs and expenses	188,269	203,240	377,623	378,204
Operating income	11,630	38,004	39,636	66,979
Other income (expense), net	(306)	495	(131)	480
Interest expense	(2,052)	(2,588)	(4,074)	(4,976)
Interest income	217	53	375	445

Edgar Filing: COMMSCOPE INC - Form 10-Q

Income before income taxes	9,489	35,964	35,806	62,928
Provision for income taxes	(3,511)	(13,671)	(13,249)	(23,908)
Net income	\$ 5,978	\$ 22,293	\$ 22,557	\$ 39,020
Net income per share (Note 4):				
Basic	\$ 0.12	\$ 0.44	\$ 0.44	\$ 0.76
Assuming dilution	\$ 0.11	\$ 0.42	\$ 0.43	\$ 0.74
Weighted average shares outstanding (Note 4):				
Basic	51,385	51,151	51,350	51,046
Assuming dilution	52,231	56,249	52,133	56,167

See notes to condensed consolidated financial statements.

3

CommScope, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

	(Unaudited) June 30, 2001	December 31, 2000
	-----	-----
Assets		
Cash and cash equivalents	\$ 17,908	\$ 7,704
Accounts receivable, less allowance for doubtful accounts of \$12,472 and \$9,187, respectively	158,984	197,536
Inventories (Note 2)	53,531	63,763
Prepaid expenses and other current assets (Note 7)	3,687	3,364
Deferred income taxes	18,329	17,296
	-----	-----
Total current assets	252,439	289,663
Property, plant and equipment, net (Note 7)	267,590	251,356
Goodwill, net of accumulated amortization of \$56,615 and \$54,140, respectively	153,981	156,685
Other intangibles, net of accumulated amortization of \$36,108 and \$34,796, respectively	12,657	13,969
Other assets (Notes 6 and 7)	6,109	9,509
	-----	-----
Total Assets	\$ 692,776	\$ 721,182
	=====	=====
Liabilities and Stockholders' Equity		
Accounts payable	\$ 23,358	\$ 39,958
Other accrued liabilities	38,217	38,481
Current portion of long-term debt (Note 3)	2,551	2,120
	-----	-----
Total current liabilities	64,126	80,559

Edgar Filing: COMMSCOPE INC - Form 10-Q

Long-term debt, less current portion (Note 3)	192,866	225,316
Deferred income taxes	21,291	24,006
Other noncurrent liabilities	18,721	16,781
	-----	-----
Total Liabilities	297,004	346,662
Commitments and contingencies (Note 8)		
Stockholders' Equity:		
Preferred stock, \$.01 par value; Authorized shares: 20,000,000; Issued and outstanding shares: None at June 30, 2001 and December 31, 2000	--	--
Common stock, \$.01 par value; Authorized shares: 300,000,000; Issued and outstanding shares: 51,412,820 at June 30, 2001; 51,263,703 at December 31, 2000	514	513
Additional paid-in capital	178,138	175,803
Retained earnings	223,359	200,802
Accumulated other comprehensive loss (Notes 5 and 6)	(6,239)	(2,598)
	-----	-----
Total Stockholders' Equity	395,772	374,520
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 692,776	\$ 721,182
	=====	=====

See notes to condensed consolidated financial statements.

4

CommScope, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited - in thousands)

	Six Months Ended June 30,	
	2001	2000
	-----	-----
Operating Activities:		
Net income	\$ 22,557	\$ 39,020
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,856	16,894
Impairment charges for fixed assets and investments	12,615	--
Deferred income taxes	(4,235)	(1,331)
Tax benefit from stock option exercises	423	3,936
Changes in assets and liabilities:		
Accounts receivable	37,259	(71,435)
Inventories	9,489	(25,037)
Prepaid expenses and other current assets	1,158	(326)
Accounts payable and other accrued liabilities	(16,139)	27,617
Other noncurrent liabilities	1,939	1,447
Other	988	35
	-----	-----
Net cash provided by (used in) operating activities	85,910	(9,180)
Investing Activities:		

Edgar Filing: COMMSCOPE INC - Form 10-Q

Additions to property, plant and equipment	(45,996)	(51,619)
Other	(328)	353
	-----	-----
Net cash used in investing activities	(46,324)	(51,266)
Financing Activities:		
Net borrowings (repayments) under revolving credit facility	(30,640)	30,000
Proceeds from exercise of stock options	1,913	4,065
	-----	-----
Net cash provided by (used in) financing activities	(28,727)	34,065
Effect of exchange rate changes on cash	(655)	(126)
	-----	-----
Change in cash and cash equivalents	10,204	(26,507)
Cash and cash equivalents, beginning of period	7,704	30,223
	-----	-----
Cash and cash equivalents, end of period	\$ 17,908	\$ 3,716
	=====	=====

See notes to condensed consolidated financial statements.

5

CommScope, Inc.
Condensed Consolidated Statements of Stockholders' Equity
and Comprehensive Income
(Unaudited - in thousands, except share amounts)

Number of common shares outstanding:		
Balance at beginning of period		51,
Issuance of shares for stock option exercises		

Balance at end of period		51,
Common stock:		
Balance at beginning of period		\$
Issuance of shares for stock option exercises		

Balance at end of period		\$
Additional paid-in capital:		
Balance at beginning of period		\$
Issuance of shares for stock option exercises		
Tax benefit from stock option exercises		

Balance at end of period		\$
Retained earnings:		
Balance at beginning of period		\$
Net income		

Edgar Filing: COMMSCOPE INC - Form 10-Q

Balance at end of period	\$
Accumulated other comprehensive loss:	
Balance at beginning of period	\$
Other comprehensive loss	
Balance at end of period	\$
Total stockholders' equity	\$

	Three Months Ended June 30,	
	2001	2000
Comprehensive income:		
Net income	\$ 5,978	\$ 22,293
Other comprehensive income (loss), net of tax (Note 5):		
Foreign currency translation loss - foreign subsidiaries	(266)	(6)
Foreign currency transaction gain (loss) on long-term intercompany loans - foreign subsidiaries	(1,421)	202
Hedging gain on nonderivative instruments (Note 6)	325	12
Effect of adopting SFAS No. 133 (Note 6)	--	--
Gain (loss) on derivative financial instruments designated as cash flow hedges (Note 6)	2	--
Total other comprehensive income (loss), net of tax	(1,360)	208
Total comprehensive income	\$ 4,618	\$ 22,501

See notes to condensed consolidated financial statements.

6

CommScope, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited - In Thousands, Unless Otherwise Noted)

1. BACKGROUND AND BASIS OF PRESENTATION

Background

CommScope, Inc. ("CommScope" or the "Company"), through its wholly owned subsidiaries, operates in the cable manufacturing business. CommScope is a leading worldwide designer, manufacturer and marketer of a wide array of broadband coaxial cables and other high-performance electronic and fiber optic cable products for cable television, telephony, Internet access and wireless communications. Management believes CommScope is the world's largest manufacturer of coaxial cable for hybrid fiber coax (HFC) cable television systems. CommScope is also a leading supplier of coaxial, twisted pair, and fiber optic cables for premise wiring (local area networks), wireless and other communication applications.

Edgar Filing: COMMSCOPE INC - Form 10-Q

Basis of Presentation

The condensed consolidated balance sheet as of June 30, 2001, the condensed consolidated statements of income and comprehensive income for the three and six months ended June 30, 2001 and 2000 and the condensed consolidated statements of cash flows and stockholders' equity for the six months ended June 30, 2001 and 2000 are unaudited and reflect all adjustments of a normal recurring nature which are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year.

The unaudited interim condensed consolidated financial statements of CommScope have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These interim condensed consolidated financial statements should be read in conjunction with the Company's December 31, 2000 audited consolidated financial statements and notes thereto included in the Company's 2000 Annual Report on Form 10-K.

Goodwill

When events or changes in circumstances, such as significant forecasted operating losses or a significant adverse change in legal factors or business climate, indicate that the carrying amount of goodwill may not be recoverable, the asset is reviewed by management for impairment. An impairment loss is recognized if the carrying value exceeds the forecasted, undiscounted operating cash flows of the operating assets related to the goodwill being evaluated. The impairment loss to be recognized is measured as the amount by which the carrying value exceeds fair value, estimated based on forecasted operating cash flows, discounted using a discount rate commensurate with the risks involved. After the impairment loss is recognized, the reduced carrying amount is accounted for as the new cost and amortized over the remaining useful life, which is also revised, if appropriate. There were no events or changes in circumstances during the three and six months ended June 30, 2001 that would indicate that the

7

Notes to Condensed Consolidated Financial Statements (Unaudited - In Thousands, Unless Otherwise Noted)

carrying amount of goodwill may not be recoverable (see Note 10 for Impact of Newly Issued Accounting Standards).

Shipping and Handling Costs

Amounts billed to a customer in a sale transaction related to shipping costs are included in net sales. All shipping costs incurred to transport products to the customer are recorded in cost of sales. Internal handling costs, which relate to activities to prepare goods for shipment, are recorded in selling, general and administrative expense and were not material for the three and six months ended June 30, 2001 or 2000.

2. INVENTORIES

	December
June 30,	31,

Edgar Filing: COMMSCOPE INC - Form 10-Q

	2001	2000
	-----	-----
Raw materials	\$ 25,139	\$ 28,382
Work in process	13,914	11,124
Finished goods	14,478	24,257
	-----	-----
	\$ 53,531	\$ 63,763
	=====	=====

3. LONG-TERM DEBT

	June 30, 2001	December 31, 2000
	-----	-----
Credit Agreement	\$ --	\$ 30,000
Convertible Notes	172,500	172,500
Eurodollar Credit Agreement	12,117	14,136
IDA Notes	10,800	10,800
	-----	-----
	195,417	227,436
Less current portion	(2,551)	(2,120)
	-----	-----
	\$ 192,866	\$ 225,316
	=====	=====

4. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the applicable periods. Diluted net income per share is based on net income adjusted for after-tax interest and amortization of debt issuance costs related to convertible debt, if dilutive, divided by the weighted average number of common shares outstanding adjusted for the dilutive effect of stock options and convertible securities. The diluted net income per share calculation assumes the exercise of stock options using the treasury stock method.

8

Notes to Condensed Consolidated Financial Statements
(Unaudited - In Thousands, Unless Otherwise Noted)

Below is a reconciliation of weighted average common shares outstanding for basic net income per share to weighted average common and potential common shares outstanding for diluted net income per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Numerator:				
Net income for basic net income per share	\$ 5,978	\$ 22,293	\$ 22,557	\$ 39,020
Convertible debt interest and amortization, net of tax	--	1,179	--	2,361
	-----	-----	-----	-----
Net income available to common stock-				

Edgar Filing: COMMSCOPE INC - Form 10-Q

holders for diluted net income per share \$ 5,978 \$ 23,472 \$ 22,557 \$ 41,381
=====

Denominator:

Weighted average number of common shares outstanding for basic net income per share	51,385	51,151	51,350	51,046
Effect of dilutive securities:				
Convertible debt (A)	--	3,580	--	3,580
Employee stock options (B)	846	1,518	783	1,541
	-----	-----	-----	-----
Weighted average number of common and potential common shares outstanding for diluted net income per share	52,231	56,249	52,133	56,167
	=====	=====	=====	=====

- (A) On December 15, 1999, the Company issued \$172.5 million in convertible notes, which are convertible into shares of common stock at a conversion rate of 20.7512 shares per \$1,000 principal amount. The effect of the assumed conversion of these notes was excluded from the calculation of net income per share, assuming dilution, for the three and six months ended June 30, 2001 because it would have been antidilutive in both periods.
- (B) Options to purchase approximately 738 thousand common shares, at prices ranging from \$19.94 to \$47.06 per share, were excluded from the computation of net income per share, assuming dilution, for the three and six months ended June 30, 2001 because the options' exercise prices were greater than the average market price of the common shares. These options, which expire on various dates during 2009 and 2010, were still outstanding as of June 30, 2001. Common shares excluded from the computation of net income per share, assuming dilution, for the three and six months ended June 30, 2000 were not material.

9

Notes to Condensed Consolidated Financial Statements
(Unaudited - In Thousands, Unless Otherwise Noted)

5. INCOME TAXES RELATED TO OTHER COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	-----	-----	-----	-----
Income tax (expense) benefit for components of other comprehensive income:				
Hedging gain on nonderivative instruments	\$ (226)	\$ (7)	\$ (561)	\$ (300)
Effect of adopting SFAS No. 133	--	--	(135)	--
Gain (loss) on derivative instruments designated as cash flow hedges	(1)	--	56	--
	-----	-----	-----	-----
Total income tax expense for components of other comprehensive income	\$ (227)	\$ (7)	\$ (640)	\$ (300)
	=====	=====	=====	=====

Edgar Filing: COMMSCOPE INC - Form 10-Q

6. DERIVATIVES AND HEDGING ACTIVITIES UNDER SFAS NO. 133

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date for FASB Statement No. 133" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other host contracts (collectively referred to as embedded derivatives) and for hedging activities. The new standards require an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

CommScope is exposed to various risks resulting from adverse fluctuations in commodity prices, interest rates, and foreign currency exchange rates. CommScope's risk management strategy includes the use of derivative and nonderivative financial instruments primarily as hedges of these risks in accordance with the requirements of SFAS No. 133, whenever management determines their use to be reasonable and practical. This strategy does not permit the use of derivative financial instruments for trading purposes, nor does it allow for speculation. A hedging instrument may be designated as a fair value hedge to manage exposure to risks related to a firm commitment for the purchase of raw materials or a foreign-currency-denominated firm commitment for the purchase of equipment, or it may be designated as a cash flow hedge to manage exposure to risks related to a forecasted purchase of raw materials, variable interest rate payments, or a forecasted foreign-currency-denominated sale of product. In addition, the use of nonderivative financial instruments is limited to hedging fair value risk related to a foreign-currency-denominated firm commitment or a net investment in a foreign subsidiary.

The Company's risk management strategy permits the reasonable and practical use of derivative hedging instruments such as forward contracts, options, cross currency swaps, certain interest rate swaps, caps and floors, and nonderivative hedging instruments such as foreign-currency-denominated loans. All hedging instruments are designated and documented, in accordance with SFAS No. 133, as either a fair value hedge, a cash flow hedge or a foreign currency hedge at inception. The effectiveness of designated hedging relationships is tested and

10

Notes to Condensed Consolidated Financial Statements
(Unaudited - In Thousands, Unless Otherwise Noted)

documented on at least a quarterly basis. Any ineffectiveness of cash flow or foreign currency hedges is recognized currently in earnings.

The only derivative instrument identified in the implementation of SFAS No. 133 and outstanding for the three and six months ended June 30, 2001 was an interest rate swap, which effectively converts the variable-rate Eurodollar Credit Agreement to a fixed-rate basis. As of January 1, 2001, this interest rate swap was designated and documented as a cash flow hedge of the risk of changes in the cash flows attributable to fluctuations in the variable benchmark interest rate associated with the underlying debt being hedged. This hedging instrument was effective at the transition date to SFAS No. 133, and at the balance sheet date, and is expected to continue to be effective for the duration of the swap contract, resulting in no anticipated hedge ineffectiveness and no material reclassifications from other comprehensive income to earnings during the next twelve months. In addition, there were no material reclassification adjustments during the three and six months ended June 30, 2001. The transition

Edgar Filing: COMMSCOPE INC - Form 10-Q

adjustment as of January 1, 2001 was recorded as a change in accounting principle to accumulated other comprehensive loss and other assets on the balance sheet and did not have a material impact on the Company's consolidated results of operations, financial position, and cash flows.

Also, as of January 1, 2001, the Eurodollar Credit Agreement was designated and documented as a hedge of the Company's net investment in its Belgian subsidiary. There was no adjustment required under SFAS No. 133 as of January 1, 2001 related to this net investment hedge. This hedging instrument was effective at the SFAS No. 133 transition date, and at the balance sheet date, and is expected to continue to be effective for the duration of the loan agreement, resulting in no anticipated reclassifications from other comprehensive income to earnings. In addition, the Company does not currently intend to repatriate the earnings of this subsidiary in the foreseeable future.

Activity in the accumulated net gain on derivative instruments included in accumulated other comprehensive loss for the three and six months ended June 30, 2001 consists of the following:

	Three Months Ended June 30, 2001 -----	Six Months Ended June 30, 2001 -----
Accumulated net gain on derivative instruments, beginning of period	\$ 132	\$ --
Net effect of adopting SFAS No. 133	--	229
Net gain (loss) on derivative financial instruments designated as cash flow hedges	2	(95)
	-----	-----
Accumulated net gain on derivative instruments, end of period	\$ 134 =====	\$ 134 =====

7. IMPAIRMENT CHARGES FOR FIXED ASSETS AND INVESTMENTS

The Company has taken a number of steps to closely manage costs and has been evaluating all aspects of its business in response to challenging industry conditions. As a result of its review, the Company recorded pretax impairment charges totaling \$12.6 million for the three months ended June 30, 2001. Included in these impairment charges was approximately \$3.6 million related to an investment in an unconsolidated affiliate, \$4.4 million related to fixed assets identified as held for disposal and \$4.6 million related to fixed assets to be held and used.

11

Notes to Condensed Consolidated Financial Statements
(Unaudited - In Thousands, Unless Otherwise Noted)

Management determined that the fair value of the Company's investment in an unconsolidated affiliate was less than its carrying value, which has been accounted for under the cost method. This determination was based on reduced cash flow projections. The fair value of this investment was determined using present value techniques based on anticipated cash flows.

The assets held for disposal consist of machinery and equipment used or

Edgar Filing: COMMSCOPE INC - Form 10-Q

purchased for use in production. Management identified specific assets that were determined to have no future use to the Company and developed a plan of disposal for each of the assets which will be completed as soon as practicable. The assets held for disposal have a carrying value of \$1.6 million, after impairment charges including costs of disposal, and are included in current assets.

The assets to be held and used consist of the Kings Mountain facility, which was under construction, and other machinery and equipment whose anticipated future cash flows have been affected by challenging industry conditions. Although we have not classified this facility as held for disposal, we are uncertain as to its future use. Equipment that was intended for the Kings Mountain facility is expected to be redeployed overseas. The fair values of the assets to be held and used were determined using appraisals or present value techniques.

8. COMMITMENTS AND CONTINGENCIES

As of June 30, 2001, the Company had committed funds of approximately \$10.5 million under purchase orders and contracts related to capacity expansion projects.

9. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended June 30,	
	2001	2000
Cash paid during the period for:		
Income Taxes	\$ 15,694	\$ 21,850
Interest	4,435	4,577

10. IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." Both statements are effective for the Company on January 1, 2002, except that business combinations, including related goodwill and intangible assets, occurring after June 30, 2001 are immediately subject to the provisions of the two Statements. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and broadens the criteria for recording intangible assets separate from goodwill. SFAS No. 142 requires the use of a nonamortization approach to account for purchased goodwill and certain intangible assets with indefinite useful lives and also requires at least an annual assessment for impairment by applying a fair-value-based test. Goodwill and certain intangible assets with indefinite lives acquired after June 30, 2001 are immediately subject to the nonamortization provisions of SFAS No. 142. Intangible assets with definite useful lives will continue to be amortized over

their useful lives. The adoption of these statements will have a material impact on the Company's results of operations and financial position after January 1, 2002 when goodwill will no longer be amortized. The impact on the Company's

Edgar Filing: COMMSCOPE INC - Form 10-Q

results of operations and financial position of adopting a nonamortization approach to accounting for goodwill under SFAS No. 142 is expected to be approximately \$5.3 million per year. The Company is currently assessing the impact of the other provisions of these two Statements, which will be adopted on January 1, 2002.

11. SUBSEQUENT EVENTS

The Company announced on July 24, 2001 that it had agreed with Furukawa Electric Co., Ltd. of Japan to form two joint ventures to acquire certain fiber cable and transmission fiber assets of the Optical Fiber Solutions Group of Lucent Technologies, Inc. The transaction is expected to enhance CommScope's technology platform with key intellectual property and research and development, expand its channel access by adding complementary capabilities and provide it with a strategic position in fiber optic manufacturing.

Under the terms of the transaction, CommScope and Furukawa will enter into two joint ventures, one owning certain fiber cable assets of Lucent's Optical Fiber Solutions Group and one owning certain transmission fiber assets of such business. CommScope expects to own 51% of the fiber cable joint venture and to consolidate its financial results. CommScope expects to own 49% of the transmission fiber joint venture and to account for its results using the equity method. CommScope will invest approximately \$650 million for its ownership interests in the two joint ventures, which are expected to be funded through a combination of debt and equity. In conjunction with the debt and equity financing, the Company anticipates refinancing its existing revolving credit agreement and prepaying its eurodollar credit agreement and related interest rate swap. Consummation of the transaction, which is subject to regulatory approval and the satisfaction of other conditions, is expected to occur in September 2001.

The Company will apply the provisions of SFAS Nos. 141 and 142 to this transaction, since both statements are effective immediately for business combinations consummated after June 30, 2001 (see Note 10).

13

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

The following discussion and analysis 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 document as well as the audited consolidated financial statements, related notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2000 included in our Annual Report on Form 10-K.

HIGHLIGHTS

Net income was \$6 million, or \$0.11 per diluted share, for the quarter ended June 30, 2001 compared to net income of \$22 million, or \$0.42 per diluted share for the quarter ended June 30, 2000. Net income for the current quarter included charges of approximately \$0.15 per diluted share, net of tax, related to the impairment of certain assets.

Net income was \$23 million, or \$0.43 per diluted share, for the six months ended June 30, 2001 compared to net income of \$39 million, or \$0.74 per diluted share, for the six months ended June 30, 2000. The impairment charges during the second quarter of 2001 accounted for the majority of the year-over-year decrease.

Edgar Filing: COMMSCOPE INC - Form 10-Q

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 2001 WITH THE THREE- AND SIX-MONTH PERIODS ENDED JUNE 30, 2000

Net Sales

Net sales for the second quarter ended June 30, 2001 decreased \$41 million, or 17%, to \$200 million, compared to the second quarter ended June 30, 2000. Net sales for the six months ended June 30, 2001 decreased \$28 million, or 6%, to \$417 million, compared to the six months ended June 30, 2000. Revenues reflect the slowdown in telecommunications spending. Domestic sales decreased 14% to \$156 million in the second quarter and 7% to \$312 million in the six months ended June 30, 2001, compared to the same periods in 2000.

For the second quarter of 2001, international sales decreased 28% to \$44 million compared to the same period in 2000. International sales for the six months ended June 30, 2001 decreased 5% to \$105 million compared to the same period in 2000. International sales were down year over year in all regions except Latin America.

Net sales to broadband and other video distribution markets ("Broadband/Video Products") for the second quarter of 2001 decreased approximately \$20 million or 11% to \$160 million, from the same period in 2000. We have not changed the composition of this product group, but have changed the name from CATV/Video to Broadband/Video in order to reflect the ongoing convergence of video, voice and data. The year-over-year decrease in net sales of Broadband/Video products for the second quarter was primarily due to lower coaxial cable volume, which was somewhat offset by strong sales of fiber optic cable. Sales of fiber optic cable grew to more than 15% of total worldwide sales in the second quarter ended June 30, 2001. For the six months ended June 30, 2001, net sales of Broadband/Video Products increased slightly by \$2 million, or approximately 1%, to \$329 million, compared to the same period in 2000. Second quarter domestic Broadband/Video sales decreased approximately 4%, year over year, despite strong fiber optic cable sales which offset a significant decrease

14

in broadband cable sales to AT&T and alternate service providers. Primarily due to the challenging economic environment, we currently expect sales of broadband cable products to be lower in the second half of 2001 than in the first half of 2001. However, we believe that our ability to offer both coaxial and fiber optic cable continues to be an important competitive advantage.

Net sales for local area network and other data applications ("LAN Products") for the second quarter of 2001 increased slightly by \$1 million or approximately 4% to \$26 million, from the same period in 2000. For the six months ended June 30, 2001, sales of LAN Products were flat at \$50 million, compared to the same period in 2000.

Net sales for wireless and other telecommunications products ("Wireless and Other Telecom Products") for the second quarter of 2001 were approximately \$14 million compared to nearly \$37 million in the same period last year. For the six months ended June 30, 2001, sales of Wireless and Other Telecom Products were \$38 million compared to \$68 million in the same period last year. The decrease in sales of Wireless and Other Telecom Products was primarily driven by lower volume. Sales of Other Telecom Products, which primarily represent coaxial cables designed for switching and transmission applications for enhanced telecommunications services, accounted for the majority of the decline primarily due to lower capital spending for telephone central office applications and increasing competitive pressures. Due to these issues, we currently expect sales of Wireless and Other Telecom Products to be lower in the second half of 2001

Edgar Filing: COMMSCOPE INC - Form 10-Q

than in the first half of 2001.

Gross Profit (Net Sales Less Cost of Sales)

Gross profit for the second quarter ended June 30, 2001 was approximately \$48 million, compared to second quarter 2000 gross profit of \$64 million and second quarter gross profit margin declined to 24.2% from 26.7%, year over year. For the six months ended June 30, 2001, gross profit decreased to \$101 million, compared to \$117 million for the same period in 2000 with gross profit margins of 24.2% and 26.2%, respectively. The decline in gross profit margins was primarily due to lower sales volumes, increased overhead costs associated with capacity expansion and shifting product mix. We intend to continue evaluating all aspects of our business and closely manage costs. However, despite these efforts, we expect continued margin compression during the remainder of 2001, primarily as a result of lower sales volumes, shifting product mix, and lower prices for certain products.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense for the second quarter ended June 30, 2001 increased to \$21 million, compared to \$20 million for the same period in 2000. As a percentage of net sales, SG&A expense was 10% for the second quarter ended June 30, 2001, up from 8% for the same period in 2000. For the six months ended June 30, 2001, SG&A expense was approximately \$43 million, or 10% of sales, compared to approximately \$38 million, or nearly 9% of sales, for the same period in 2000. The year-over-year increases in SG&A expense were mainly due to the decrease in sales and partly due to the increase in bad debt expense resulting from a more difficult collection environment.

Research and Development

Research and development ("R&D") expense, as a percentage of net sales, decreased in line with our expectations to 1% for the second quarter ended June 30, 2001 from 2% for the same period in 2000. For the six months ended June 30, 2001, R&D expense decreased to nearly \$4 million, or 1% of sales, compared to

15

almost \$9 million, or 2% of sales, for the same period in 2000. These decreases were primarily due to the substantial completion of certain vertical integration projects for bimetallic wire fabrication and fine wire drawing. We have ongoing programs to develop new products and market opportunities for our products and core capabilities and new manufacturing technologies to achieve cost reductions.

Impairment Charges for Fixed Assets and Investments

As previously stated, we have taken a number of steps to closely manage costs and have been evaluating all aspects of our business in response to challenging industry conditions. As a result of our review, we recorded pretax charges of nearly \$13 million, or approximately \$0.15 per diluted share, net of tax, related to the impairment of certain assets. Management identified specific assets that were determined to have no future use in our operations and assets whose anticipated future cash flows have fallen below their book values. These adjustments include equipment charges and a write-down of the Kings Mountain facility, which was under construction. Equipment that was intended for the Kings Mountain facility is expected to be redeployed overseas. The write-off of an investment in an unconsolidated affiliate, whose fair value was determined to be less than its carrying value due to reduced cash flow projections, was also included in the charges.

Net Interest Expense

Edgar Filing: COMMSCOPE INC - Form 10-Q

Net interest expense for the second quarter ended June 30, 2001 decreased to \$1.8 million, compared to \$2.5 million for the same period in 2000. For the six months ended June 30, 2001, net interest expense decreased to \$3.7 million, compared to \$4.5 million for the same period in 2000. The decrease in net interest expense was primarily due to a lower long-term debt balance at June 30, 2001, compared to June 30, 2000.

Income Taxes

Our effective tax rate was 37% for the second quarter and six months ended June 30, 2001, compared to 38% for the same periods in 2000. This decrease in our effective tax rate was mainly due to specific tax savings strategies implemented late in 2000.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was nearly \$86 million for the six months ended June 30, 2001, compared to cash used in operating activities of \$9 million for the same period in 2000. This increase in operating cash flow was mainly due to the decrease in working capital from December 31, 2000 levels.

Working capital was \$188 million at June 30, 2001, compared to \$209 million at December 31, 2000. The decrease primarily relates to lower accounts receivable due to declining sales. We believe that working capital levels are appropriate to support current levels of orders and backlog. We had an order backlog of approximately \$78 million as of June 30, 2001, compared to \$156 million as of December 31, 2000. Orders typically fluctuate from quarter to quarter based on customer demand and general business conditions. In some cases, unfilled orders may be cancelled prior to shipment of goods. Backlog includes only orders for products scheduled to be shipped within six months.

16

During the six months ended June 30, 2001, we invested \$46 million in property, plant and equipment compared to \$52 million during the same period in 2000. As of June 30, 2001, we had committed funds of nearly \$11 million under purchase orders and contracts related to capacity expansion projects. In response to current market conditions, we intend to continue evaluating all aspects of our business, including the timing and location of capacity needs. We currently expect capital expenditures for equipment and facilities in 2001 to be approximately \$80-\$90 million, with the majority of funds expected to be invested in global capacity expansion projects.

Our principal sources of liquidity both on a short-term and long-term basis are cash flows provided by operations and funds available under long-term credit facilities. We currently have \$350 million of available borrowing capacity under our revolving credit agreement, which expires in December 2002. We owed long-term debt of \$195 million, or 33% of our book capital structure, defined as long-term debt and total stockholders' equity, as of June 30, 2001, compared to \$227 million, or 38% of our book capital structure as of December 31, 2000. The decrease in long-term debt is due mainly to the repayment of \$30 million under our revolving credit agreement and partly to the first quarterly principal payment and favorable impact of foreign exchange rate fluctuations on our 15 million eurodollar term loan.

In July 2001, we announced that we had agreed with Furukawa Electric Co., Ltd. of Japan to form two joint ventures to acquire certain fiber cable and transmission fiber assets of the Optical Fiber Solutions Group of Lucent Technologies, Inc. We will invest approximately \$650 million for our ownership interests in the joint ventures, which will be funded through a combination of

Edgar Filing: COMMSCOPE INC - Form 10-Q

debt and equity. In conjunction with the debt and equity financing, we anticipate refinancing our existing revolving credit agreement and prepaying our eurodollar term loan and related interest rate swap. Consummation of the transaction, which is subject to regulatory approval and the satisfaction of other conditions, is expected to occur in September 2001.

Based upon our analysis of our consolidated financial position and the expected results of our operations in the future, we believe that we will have sufficient cash flows from future operations and the financial flexibility to attract both short-term and long-term capital on acceptable terms as may be needed to fund operations, capital expenditures and other growth objectives. There can be no assurance, however, that future industry-specific developments, general economic trends or other situations will not adversely affect our operations or ability to meet cash requirements.

MARKET RISK

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138. The adoption of SFAS No. 133, as amended, did not have a material impact on our consolidated results of operations, financial position, and cash flows as of January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other host contracts and for hedging activities.

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2000, our major market risk exposure relates to adverse fluctuations in commodity prices, interest rates and foreign currency exchange rates. We have established a risk management strategy that includes the use of derivative and nonderivative financial instruments primarily to manage our exposure to these market risks in accordance with the requirements of SFAS No. 133, whenever management determines their use to be reasonable and practical. Our exposure associated with these market risks has not materially changed since December 31, 2000. However, we did repay \$30 million of variable rate debt on our revolving

17

credit agreement in the first quarter of 2001 and approximately \$1 million of variable rate debt on our eurodollar term loan, somewhat reducing our exposure to interest rate risk. In addition, we have not acquired any new derivative financial instruments since December 31, 2000 or terminated any derivative financial instruments that existed at that date.

FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q that are other than historical facts are intended to be "forward-looking statements" within the meaning of the Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995 and other related laws and include but are not limited to those statements relating to sales and earnings expectations, expected demand, cost and availability of key raw materials, internal production capacity and expansion, competitive pricing, relative market position and outlook. While we believe such statements are reasonable, the actual results and effects could differ materially from those currently anticipated. These forward-looking statements are identified, including, without limitation, by their use of such terms and phrases as "intends," "intend," "intended," "goal," "estimate," "estimates," "expects," "expect," "expected," "project," "projects," "projected," "projections," "plans," "anticipates," "anticipated," "should," "designed to," "foreseeable future," "believe," "believes," "think," "thinks" and "scheduled"

Edgar Filing: COMMSCOPE INC - Form 10-Q

and similar expressions. These statements are subject to various risks and uncertainties, many of which are outside our control, including, without limitation, expected demand from our customers, cost and availability of key raw materials (including without limitation bimetallic center conductors, optical fibers, fine aluminum wire and fluorinated-ethylene-propylene which are available only from limited sources), successful implementation of internal bimetal production and other vertical integration activities, pricing and acceptance of our products, successful expansion and related operation of our facilities, conditions of excess capacity, the ability to implement cost reductions in a timely manner and the success of those actions, margin improvement, developments in technology, industry competition, achievement of sales, growth, and earnings goals, ability of our customers to secure adequate financing, regulatory changes affecting our business, worldwide economic conditions, foreign currency fluctuations, technological obsolescence, the ability to integrate acquisitions, international economic and political uncertainties and other factors discussed. Actual results may also differ due to changes in communications industry capital spending, which is affected by a variety of factors, including, without limitation, general economic conditions, acquisitions of communications companies by others, consolidation within the communications industry, the financial condition of communications companies and their access to financing, competition among communications companies, technological developments, and new legislation and regulation of communications companies. These and other factors are discussed in greater detail in Exhibit 99 to this Form 10-Q. The information contained in this Form 10-Q represents our best judgment at the date of this report based on information currently available. However, we do not intend to update this information to reflect developments or information obtained after the date of this report and are not undertaking any duty or obligation to do so.

18

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders (the "Meeting") on May 4, 2001. Proxies for such meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. A total of 51,360,367 shares of Common Stock with one vote each were entitled to vote at the Meeting and holders of 45,733,927 shares voted in person or by proxy, constituting a quorum.

At the Meeting, two of the Company's directors were elected for three-year terms ending at the 2004 Annual Meeting of Stockholders by the vote set forth below:

Name of Director -----	Votes For -----	Votes Withheld -----
Boyd L. George	42,962,667	2,771,260
George N. Hutton, Jr.	44,603,301	1,130,626

The Company's other four directors, whose terms of office continue after the Meeting, are Edward D. Breen, Frank M. Drendel, Duncan M. Faircloth, and James N. Whitson.

A proposal to ratify the appointment by the board of directors of the Company of Deloitte & Touche LLP as independent auditors for the Company for the 2001 fiscal year was approved by 42,627,728 votes cast in favor, 2,944,861 votes cast against and 161,338 votes abstaining.

Edgar Filing: COMMSCOPE INC - Form 10-Q

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

EXHIBIT NO.

99. Forward-Looking Information

(b) Reports on Form 8-K filed during the three months ended June 30, 2001:

On April 2, 2001 we filed a current report on Form 8-K announcing work force reductions.

On April 25, 2001 we filed a current report on Form 8-K announcing our first quarter 2001 results.

19

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMSCOPE, INC.

August 14, 2001

/s/ Jearld L. Leonhardt

Date

Jearld L. Leonhardt
Executive Vice President and Chief Financial Officer
Signing both in his capacity as Executive Vice
President on behalf of the Registrant and as Chief
Financial Officer of the Registrant

20