CommScope Holding Company, Inc.
Form 10-Q
May 01, 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 March 31, 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 incorporation or organization)	(I.R.S. Employer Identification No.)

1100 CommScope Place, SE

Hickory, North Carolina

(Address of principal executive offices)

28602

(Zip Code)

(828) 324-2200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

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

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

As of April 13, 2018 there were 192,085,842 shares of Common Stock outstanding.

CommScope Holding Company, Inc.

Form 10-Q

March 31, 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
(Unaudited -- In thousands, except per share amounts)

	Three Months Ended March 31, 2018	2017
Net sales	$1,120,517	$1,137,285
Operating costs and expenses:		
Cost of sales	709,117	683,478
Selling, general and administrative	185,131	211,821
Research and development	49,864	48,988
Amortization of purchased intangible assets	67,229	67,638
Restructuring costs, net	5,450	5,388
Total operating costs and expenses	1,016,791	1,017,313
Operating income	103,726	119,972
Other income (expense), net	983	(15,357)
Interest expense	(59,807)	(69,554)
Interest income	1,434	874
Income before income taxes	46,336	35,935
Income tax expense	(12,601)	(2,373)
Net income	$33,735	$33,562
Earnings per share:		
Basic	$0.18	$0.17
Diluted	$0.17	$0.17
Weighted average shares outstanding:		
Basic	191,366	194,068
Diluted	195,459	199,140
Comprehensive income:		
Net income	$33,735	$33,562
Other comprehensive income, net of tax:		
Foreign currency translation gain	46,785	40,351
Pension and other postretirement benefit activity	(1,432)	(369)
Loss on net investment hedge	(598)	(355)
Available-for-sale securities	—	1,309
Total other comprehensive income, net of tax	44,755	40,936
Total comprehensive income	$78,490	$74,498

See notes to unaudited condensed consolidated financial statements.

CommScope Holding Company, Inc.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands, except share amounts)

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$472,733	$ 453,977
Accounts receivable, less allowance for doubtful accounts of $15,107 and $13,976, respectively	984,847	898,829
Inventories, net	470,946	444,941
Prepaid expenses and other current assets	153,681	146,112
Total current assets	2,082,207	1,943,859
Property, plant and equipment, net of accumulated depreciation of $407,331 and $390,389, respectively	464,306	467,289
Goodwill	2,900,958	2,886,630
Other intangible assets, net	1,578,003	1,636,084
Other noncurrent assets	124,993	107,804
Total assets	$7,150,467	$ 7,041,666
Liabilities and Stockholders' Equity		
Accounts payable	$460,498	$ 436,737
Other accrued liabilities	301,380	286,980
Total current liabilities	761,878	723,717
Long-term debt	4,371,821	4,369,401
Deferred income taxes	128,965	134,241
Pension and other postretirement benefit liabilities	25,212	25,140
Other noncurrent liabilities	131,234	141,341
Total liabilities	5,419,110	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, $0.01 par value: Authorized shares: 1,300,000,000; Issued and outstanding shares: 192,077,678 and 190,906,110, respectively	1,988	1,972
Additional paid-in capital	2,348,498	2,334,071
Retained earnings (accumulated deficit)	(356,259)	(395,998)
Accumulated other comprehensive loss	(41,848)	(86,603)
Treasury stock, at cost: 6,733,285 shares and 6,336,144 shares, respectively	(221,022)	(205,616)
Total stockholders' equity	1,731,357	1,647,826
Total liabilities and stockholders' equity	$7,150,467	$ 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)

	Three Months Ended March 31, 2018	2017
Operating Activities:		
Net income	$33,735	$33,562
Adjustments to reconcile net income to net cash generated by operating activities:		
Depreciation and amortization	89,405	100,401
Equity-based compensation	10,547	9,412
Deferred income taxes	(5,444)	(16,444)
Changes in assets and liabilities:		
Accounts receivable	(71,108)	19,683
Inventories	(25,207)	(19,132)
Prepaid expenses and other assets	(24,502)	(12,314)
Accounts payable and other liabilities	15,412	(28,032)
Other	12,422	15,653
Net cash generated by operating activities	35,260	102,789
Investing Activities:		
Additions to property, plant and equipment	(13,576)	(12,910)
Proceeds from sale of property, plant and equipment	2,984	355
Other	—	639
Net cash used in investing activities	(10,592)	(11,916)
Financing Activities:		
Long-term debt repaid	—	(750,000)
Long-term debt proceeds	—	750,000
Debt issuance and modification costs	—	(6,115)
Debt extinguishment costs	—	(14,800)
Cash paid for repurchase of common stock	—	(58,770)
Proceeds from the issuance of common shares under equity-based compensation plans	3,929	5,805
Tax withholding payments for vested equity-based compensation awards	(15,406)	(14,758)
Net cash used in financing activities	(11,477)	(88,638)
Effect of exchange rate changes on cash and cash equivalents	5,565	7,174
Change in cash and cash equivalents	18,756	9,409
Cash and cash equivalent at beginning of period	453,977	428,228
Cash and cash equivalents at end of period	$472,733	$437,637

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)

	Three Months Ended March 31, 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	1,568,709	1,655,631
Shares surrendered under equity-based compensation plans	(397,141)	(393,594)
Repurchase of common stock	—	(1,632,986)
Balance at end of period	192,077,678	193,466,488
Common stock:		
Balance at beginning of period	$1,972	$1,950
Issuance of shares under equity-based compensation plans	16	16
Balance at end of period	$1,988	$1,966
Additional paid-in capital:		
Balance at beginning of period	$2,334,071	$2,282,014
Issuance of shares under equity-based compensation plans	3,913	5,789
Equity-based compensation	10,514	9,316
Cumulative effect of change in accounting principle	—	295
Balance at end of period	$2,348,498	$2,297,414
Retained earnings (accumulated deficit):		
Balance at beginning of period	$(395,998)	$(589,556)
Net income	33,735	33,562
Cumulative effect of change in accounting principle	6,004	(206)
Balance at end of period	$(356,259)	$(556,200)
Accumulated other comprehensive loss:		
Balance at beginning of period	$(86,603)	$(285,113)
Other comprehensive income, net of tax	44,755	40,936
Balance at end of period	$(41,848)	$(244,177)
Treasury stock, at cost:		
Balance at beginning of period	$(205,616)	$(15,211)
Net shares surrendered under equity-based compensation plans	(15,406)	(14,758)
Repurchase of common stock	—	(65,011)
Balance at end of period	$(221,022)	$(94,980)
Total stockholders' equity	$1,731,357	$1,404,023

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 March 31, 2018 and the Condensed Consolidated Statements of Operations and Comprehensive Income, Cash Flows and Stockholders’ Equity for the three months ended March 31, 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 months ended March 31, 2018. These interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements.

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 at either 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 contract completion 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.

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-contact 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 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 10% of the Company’s total net sales during both the three months ended March 31, 2018 and 2017. Sales to Anixter primarily originate within the CCS segment. Other than Anixter, no direct customer accounted for 10% or more of the Company’s total net sales for the three months ended March 31, 2018 or 2017. No direct customer accounted for 10% or more of the Company’s accounts receivable as of March 31, 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.

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

	Three Months Ended March 31,	
	2018	2017
Product warranty accrual, beginning of period	$16,928	$21,631
Provision for warranty claims	1,420	2,202
Warranty claims paid	(2,217)	(3,618)
Foreign exchange	19	(35)
Product warranty accrual, end of period	$16,150	$20,180

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Commitments and Contingencies

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

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

Asset Impairments

Goodwill is tested for impairment annually or at other times if events have occurred or circumstances exist that indicate the carrying value of the reporting unit may exceed its fair value. There were no goodwill impairments identified during the three months ended March 31, 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 they are then measured at fair value if 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 months ended March 31, 2018 or 2017.

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 ended March 31, 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 27.2% for the three months ended March 31, 2018 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 United States (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 $4.3 million of excess tax benefits related to equity-based compensation awards.

The effective income tax rate of 6.6% for the three months ended March 31, 2017 was significantly lower than the statutory rate of 35.0% primarily due to the favorable impact of $8.7 million of excess tax benefits related to equity-based compensation awards. 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 months ended March 31, 2017 was the effect of the provision for state income taxes.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is based on net income divided by the weighted average number of common shares outstanding plus the effect of potentially dilutive common shares using the treasury stock method. Potentially dilutive common shares include outstanding equity-based awards (stock options, restricted stock units and performance share units). Certain outstanding equity-based awards were not included in the computation of diluted earnings per share because the effect was either antidilutive or the performance conditions were not met (0.5 million shares and 0.4 million shares for the three months ended March 31, 2018 and 2017, respectively).

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

	Three Months Ended March 31,	
	2018	2017
Numerator:		
Net income for basic and diluted earnings per share	$33,735	$33,562
Denominator:		
Weighted average common shares outstanding - basic	191,366	194,068
Dilutive effect of equity-based awards	4,093	5,072
Weighted average common shares outstanding - diluted	195,459	199,140
Earnings per share:		
Basic	$0.18	$0.17
Diluted	$0.17	$0.17

Recent Accounting Pronouncements

Adopted During the Three Months Ended March 31, 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 application 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 revenue contracts represented less than 1% of total net sales for the three months ended

March 31, 2018. 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 contract. Based on customer-specific contracts in effect at January 1, 2018, the Company recorded a cumulative effect adjustment, net of tax, of $3.4 million that reduces the accumulated deficit on the Condensed Consolidated Balance Sheets. This adjustment reflects an acceleration of revenues of $8.0 million.

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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

	Three Months Ended March 31, 2018		
	As Reported	Amounts Without Adoption of ASU No. 2014-09	Effect of Change Increase / (Decrease)
Net sales	$1,120,517	$1,122,257	$ (1,740)
Cost of sales	709,117	708,897	220
Operating income	103,726	105,686	(1,960)
Income tax expense	12,601	13,114	(513)
Net income	33,735	35,182	(1,447)

	As of March 31, 2018		
	As Reported	Amounts Without Adoption of ASU No. 2014-09	Effect of Change Increase / (Decrease)
Assets:			
Accounts receivable, less allowance for doubtful accounts	$984,847	$980,187	$ 4,660
Inventories, net	470,946	474,556	(3,610)
Liabilities:			
Other accrued liabilities	301,380	302,297	(917)
Equity:			
Retained earnings (accumulated deficit)	(356,259)	(358,226)	1,967

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.

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 the intra-entity asset sale would be recognized when the transfer occurs. The Company recorded a cumulative effect adjustment of $2.6 million 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 $1.1 million of net periodic benefit income for the three months ended March 31, 2018, $2.3 million of net periodic benefit income was recorded in other income (expense), net, and $1.2 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 months ended March 31, 2017 as the basis for applying the retrospective presentation requirements. The Company reclassified $1.4 million of net periodic benefit income from operating income to other income (expense), net for the three months ended March 31, 2017. The adoption of this guidance had no impact on the previously reported income before income taxes or net income for the three months ended March 31, 2017. See Note 10 for details on the components of the Company’s net periodic benefit cost.

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 ASU to have a material impact on its Condensed Consolidated Balance Sheets as a result of the requirement to recognize right-of-use assets and lease liabilities.

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 months ended March 31, 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

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

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	14.3	0.1	14.4
Goodwill, gross at March 31, 2018	2,207.5	904.5	3,112.0
Accumulated impairment charges at December 31, 2017 and March 31, 2018	(51.5)	(159.5)	(211.0)
Goodwill, net at March 31, 2018	$2,156.0	$745.0	$2,901.0

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 March 31, 2018		
	CCS	CMS	Total
Contract type:			
Product contracts	$671.5	$425.3	$1,096.8
Project contracts	—	10.5	10.5
Other contracts	2.1	11.1	13.2
Consolidated net sales	$673.6	$446.9	$1,120.5

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

Allowance for Doubtful Accounts

Three Months Ended

	March 31, 2018	2017
Allowance for doubtful accounts, beginning of period	$13,976	$17,211
Charged to costs and expenses	1,466	812
Deductions [(1)]	(335)	80
Allowance for doubtful accounts, end of period	$15,107	$18,103

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

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

Customer Contract Balances

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

	Balance Sheet Location	March 31, 2018	December 31, 2017
Unbilled accounts receivable	Accounts receivable, less allowance for doubtful accounts	$ 4,900	$ —
Deferred revenue	Other accrued liabilities	12,716	12,611

There were no material changes to contract asset balances for the three months ended March 31, 2018 as a result of changes in estimates or impairments. The full amount of the deferred revenue balance as of March 31, 2018 was classified as current as the Company expects to recognize these amounts as revenue over the next twelve months.

Inventories

	March 31, 2018	December 31, 2017
Raw materials	$ 137,902	$ 126,558
Work in process	105,390	98,526
Finished goods	227,654	219,857
	$ 470,946	$ 444,941

Other Accrued Liabilities

	March 31, 2018	December 31, 2017
Compensation and employee benefit liabilities	$ 93,021	$ 97,522
Accrued interest	48,876	23,485
Deferred revenue	12,716	12,611
Product warranty accrual	16,150	16,928
Restructuring reserve	15,793	24,961
Income taxes payable	14,354	16,949

Purchase price payable	12,655	2,098
Value-added taxes payable	11,980	11,838
Accrued professional fees	7,496	10,224
Other	68,339	70,364
	$ 301,380	$ 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 March 31,	
	2018	2017
Foreign currency translation		
Balance at beginning of period	$(52,770)	$(254,148)
Other comprehensive income	46,785	40,084
Amounts reclassified from AOCL	—	267
Balance at end of period	$(5,985)	$(213,797)
Net investment hedge		
Balance at beginning of period	$(4,981)	$—
Other comprehensive loss	(598)	(355)
Balance at end of period	$(5,579)	$(355)
Defined benefit plan activity		
Balance at beginning of period	$(28,852)	$(33,473)
Amounts reclassified from AOCL	(1,432)	(369)
Balance at end of period	$(30,284)	$(33,842)
Available-for-sale securities		
Balance at beginning of period	$—	$2,508
Other comprehensive income	—	1,698
Amounts reclassified from AOCI	—	(389)
Balance at end of period	$—	$3,817
Net AOCL at end of period	$(41,848)	$(244,177)

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

Cash Flow Information

Three Months Ended

March 31,

	2018	2017
Cash paid during the period for:		
Income taxes, net of refunds	$22,056	$17,006
Interest	31,907	16,643

CommScope Holding Company, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(In thousands, unless otherwise noted)

5. FINANCING

	March 31, 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	(3,236)	(3,389)
Less: Debt issuance costs, net of amortization	(61,193)	(63,460)
Total long-term debt	$4,371,821	$ 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 5.00% senior notes due 2027, the 6.00% senior notes due 2025, the 5.50% senior notes due 2024, the 5.00% senior notes due 2021 and the senior secured term loan and revolving credit facility.

Senior Secured Credit Facilities

No portion of the senior secured term loan was reflected as a current portion of long-term debt as of March 31, 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 three months ended March 31, 2018, the Company did not borrow under its revolving credit facility. As of March 31, 2018, the Company had availability of $437.2 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 $2,636 million, or 37%, of total assets and $547 million, or 10%, of total liabilities as of March 31, 2018 and accounted for $464 million, or 41%, of net sales for the three months ended March 31, 2018. 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 months ended March 31, 2017, the non-guarantor subsidiaries accounted for approximately $440 million, or 39% million, of net sales. 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 5.54% and 5.45% at March 31, 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 March 31, 2018, the Company had foreign exchange contracts outstanding with maturities of up to eleven months and aggregate notional values of $393 million (based on exchange rates as of March 31, 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.

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:

		Fair Value of Asset (Liability) March 31,	December 31,
	Balance Sheet Location	2018	2017
Foreign currency contracts	Prepaid expenses and other current assets	$10,724	$ 9,050
Foreign currency contracts	Other accrued liabilities	(580)	(574)
Total derivatives not designated as hedging instruments		$10,144	$ 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 is as follows:

Foreign Currency Forward Contracts	Location of Gain	Gain Recognized
Three Months Ended March 31, 2018	Other income (expense), net	$ 11,880
Three Months Ended March 31, 2017	Other income (expense), net	1,855

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 March 31, 2018, the Company held designated forward contracts with outstanding maturities of up to nine months and an aggregate notional value of $80.0 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. For the three months ended March 31, 2018, the Company recognized $0.3 million of pretax income in other income (expense), net as a result of amortizing the spot-forward differences.

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, net of tax. As of March 31, 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)	
		March 31,	December 31,
	Balance Sheet Location	2018	2017
Foreign currency contracts	Prepaid expenses and other current assets	$284	$ —
Foreign currency contracts	Other accrued liabilities	(1,116)	(403)
Total derivatives designated as net investment hedging instruments		$(832)	$ (403)

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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 is as follows:

Foreign Currency Forward Contracts	Location of Loss	Effective Portion of Loss Recognized
Three Months Ended March 31, 2018	Other comprehensive income, net of tax	$ (598)
Three Months Ended March 31, 2017	Other comprehensive income, net of tax	(355)

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 March 31, 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 March 31, 2018 and December 31, 2017, are as follows:

	March 31, 2018		December 31, 2017		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Valuation Inputs
Assets:					
Foreign currency contracts	$11,008	$11,008	$9,050	$9,050	Level 2
Liabilities:					
5.00% senior notes due 2027	750,000	714,375	750,000	753,750	Level 2
6.00% senior notes due 2025	1,500,000	1,557,600	1,500,000	1,591,800	Level 2
5.50% senior notes due 2024	650,000	663,000	650,000	676,780	Level 2
5.00% senior notes due 2021	650,000	658,125	650,000	661,375	Level 2
Senior secured term loan due 2022, at par	886,250	890,127	886,250	892,343	Level 2

Foreign currency contracts	1,696	1,696	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 date 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):

	March 31, 2018	December 31, 2017
Identifiable segment-related assets:		
CCS	$ 4,573.9	$ 4,546.0
CMS	2,058.0	1,995.8
Total identifiable segment-related assets	6,631.9	6,541.8
Reconciliation to total assets:		
Cash and cash equivalents	472.7	454.0
Deferred income tax assets	45.9	45.9

Total assets	$ 7,150.5	$ 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 March 31,	
	2018	2017
Net sales:		
CCS	$673.6	$681.6
CMS	446.9	455.7
Consolidated net sales	$1,120.5	$1,137.3
Segment adjusted operating income:		
CCS	$108.7	$114.5
CMS	79.9	101.4
Total segment adjusted operating income	188.6	215.9
Amortization of intangible assets	(67.2)	(67.6)
Restructuring costs, net	(5.5)	(5.4)
Equity-based compensation	(10.5)	(9.4)
Integration and transaction costs	(1.7)	(13.5)
Consolidated operating income	$103.7	$120.0
Depreciation expense:		
CCS	$14.1	$14.4
CMS	5.5	5.6
Consolidated depreciation expense	$19.6	$20.0
Additions to property, plant and equipment:		
CCS	$8.8	$8.8
CMS	4.8	4.1
Consolidated additions to property, plant and equipment	$13.6	$12.9

Sales to customers located outside of the U.S. comprised 45.8% and 43.0% of total net sales for the three months ended March 31, 2018 and 2017, respectively. Sales by geographic region, based on the destination of product shipments, were as follows (in millions):

	Three Months Ended March 31,	
	2018	2017
United States	$607.5	$648.3
Europe, Middle East and Africa	249.7	231.8

Asia Pacific	188.6	181.9
Caribbean and Latin America	56.1	58.8
Canada	18.6	16.5
Consolidated net sales	$1,120.5	$1,137.3

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 relate to the discounted cost of unused leased facilities, net of anticipated sub-rental income. Fixed asset related costs include non-cash impairments or fixed asset disposals associated with restructuring actions in addition to the cash costs to uninstall, pack, ship and reinstall manufacturing equipment and the costs to prepare the receiving facility to accommodate relocated equipment. 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 March 31,	
	2018	2017
CCS	$2,370	$4,757
CMS	3,080	631
Total	$5,450	$5,388

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

	March 31, 2018	December 31, 2017
Other accrued liabilities	$ 15,793	$ 24,961
Other noncurrent liabilities	6,077	7,036
Total liability	$ 21,870	$ 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 March 31, 2018, these actions were substantially complete except for a $4.9 million liability for lease termination costs, for which the Company expects to make cash payments of $1.4 million during the remainder of 2018 and make the remaining payments of $3.5 million between 2019 and 2022.

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 December 31, 2017	$ 25,588	$ 1,080	$ —	$ 26,668
Additional charge recorded	3,938	658	790	5,386
Cash paid	(13,692)	(844)	(146)	(14,682)
Consideration received	—	—	2,279	2,279
Foreign exchange and other non-cash items	263	10	(2,923)	(2,650)
Balance at March 31, 2018	$ 16,097	$ 904	$ —	$ 17,001

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(In thousands, unless otherwise noted)

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 $115.0 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 $13.0 million during the remainder of 2018 and additional cash payments of $4.0 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 March 31,			
	U.S. Plans		Non-U.S. Plans	
	2018	2017	2018	2017
Service cost	$—	$—	$1,164	$1,164
Interest cost	1,323	1,490	1,354	1,271
Recognized actuarial loss	120	164	320	367
Amortization of prior service cost	—	—	10	—
Expected return on plan assets	(1,597)	(1,687)	(2,004)	(1,819)
Net periodic benefit cost (income)	$(154)	$(33)	$844	$983

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 $1.1 million to its defined benefit pension plans during the three months ended March 31, 2018. During the remainder of 2018, the Company anticipates making additional contributions of approximately $4.9 million to these plans.

During the three months ended March 31, 2018, the Company communicated its intent to terminate a significant U.S. defined benefit pension plan. It is estimated that additional contributions of $1 million to $3 million will be required to fund the annuity purchase for the termination, which are incremental to the anticipated contributions 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 $25 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 months ended March 31, 2018. The remaining authorization under the plan was $25.0 million at March 31, 2018 and the authorization expires on July 31, 2018.

Equity-Based Compensation Plans

As of March 31, 2018, $95.0 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 1.7 years. There were no significant capitalized equity-based compensation costs at March 31, 2018.

CommScope Holding Company, Inc.

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(In thousands, unless otherwise noted)

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

	Three Months Ended March 31,	
	2018	2017
Selling, general and administrative	$8,038	$7,159
Cost of sales	1,333	1,197
Research and development	1,176	1,056
Total equity-based compensation expense	$10,547	$9,412

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.

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

	Shares	Weighted Average Option Exercise Price Per Share	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at December 31, 2017	4,830	$ 13.01		
Granted	444	$ 38.34		
Exercised	(331)	$ 11.89		
Forfeited	(42)	$ 33.38		