

BELDEN INC.
Form 10-Q
November 05, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
Commission File No. 001-12561

BELDEN INC.
(Exact name of registrant as specified in its charter)

Delaware 36-3601505
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
1 North Brentwood Boulevard
15th Floor
St. Louis, Missouri 63105
(Address of principal executive offices)
(314) 854-8000
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 Act 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 every Interactive Data File required to be submitted 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 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 Smaller reporting company Emerging growth company

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

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

As of November 1, 2018, the Registrant had 40,305,408 outstanding shares of common stock.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BELDEN INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 329,027	\$ 561,108
Receivables, net	474,870	473,570
Inventories, net	322,194	297,226
Other current assets	50,361	40,167
Total current assets	1,176,452	1,372,071
Property, plant and equipment, less accumulated depreciation	351,628	337,322
Goodwill	1,554,830	1,478,257
Intangible assets, less accumulated amortization	537,087	545,207
Deferred income taxes	63,853	42,549
Other long-lived assets	31,062	65,207
	\$3,714,912	\$ 3,840,613
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 304,923	\$ 376,277
Accrued liabilities	314,667	302,651
Total current liabilities	619,590	678,928
Long-term debt	1,503,597	1,560,748
Postretirement benefits	124,013	102,085
Deferred income taxes	38,771	27,713
Other long-term liabilities	38,639	36,273
Stockholders' equity:		
Preferred stock	1	1
Common stock	503	503
Additional paid-in capital	1,135,699	1,123,832
Retained earnings	889,189	833,610
Accumulated other comprehensive loss	(85,667)	(98,026)
Treasury stock	(549,899)	(425,685)
Total Belden stockholders' equity	1,389,826	1,434,235
Noncontrolling interest	476	631
Total stockholders' equity	1,390,302	1,434,866
	\$3,714,912	\$ 3,840,613

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

BELDEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
	(In thousands, except per share data)			
Revenues	\$655,774	\$621,745	\$1,929,978	\$1,783,759
Cost of sales	(394,917)	(381,896)	(1,180,931)	(1,078,432)
Gross profit	260,857	239,849	749,047	705,327
Selling, general and administrative expenses	(132,716)	(116,129)	(396,430)	(346,786)
Research and development	(33,471)	(35,442)	(107,781)	(105,108)
Amortization of intangibles	(25,533)	(27,162)	(74,990)	(77,944)
Gain from patent litigation	62,141	—	62,141	—
Operating income	131,278	61,116	231,987	175,489
Interest expense, net	(14,472)	(19,385)	(46,538)	(66,424)
Non-operating pension benefit (cost)	1,356	(325)	824	(880)
Loss on debt extinguishment	—	(51,594)	(22,990)	(52,441)
Income (loss) before taxes	118,162	(10,188)	163,283	55,744
Income tax benefit (expense)	(32,304)	11,133	(46,063)	6,673
Net income	85,858	945	117,220	62,417
Less: Net loss attributable to noncontrolling interest	(23)	(82)	(148)	(274)
Net income attributable to Belden	85,881	1,027	117,368	62,691
Less: Preferred stock dividends	8,732	8,732	26,198	26,198
Net income (loss) attributable to Belden common stockholders	\$77,149	\$(7,705)	\$91,170	\$36,493
Weighted average number of common shares and equivalents:				
Basic	40,510	42,256	40,960	42,251
Diluted	47,678	42,256	41,268	42,663
Basic income (loss) per share attributable to Belden common stockholders	\$1.90	\$(0.18)	\$2.23	\$0.86
Diluted income (loss) per share attributable to Belden common stockholders	\$1.80	\$(0.18)	\$2.21	\$0.86
Comprehensive income (loss) attributable to Belden	\$68,620	\$(18,127)	\$129,727	\$17,416
Common stock dividends declared per share	\$0.05	\$0.05	\$0.15	\$0.15

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

BELDEN INC.
 CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
 (Unaudited)

	Nine Months Ended	
	September 30,	October 1,
	2018	2017
	(In thousands)	
Cash flows from operating activities:		
Net income	\$117,220	\$62,417
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	111,896	112,538
Share-based compensation	14,657	13,431
Loss on debt extinguishment	22,990	52,441
Changes in operating assets and liabilities, net of the effects of currency exchange rate changes and acquired businesses:		
Receivables	(25,338)	(32,950)
Inventories	(16,642)	(50,232)
Accounts payable	(81,296)	30,290
Accrued liabilities	(29,474)	(54,828)
Income taxes	4,463	(32,071)
Other assets	(13,267)	(9,046)
Other liabilities	(4,350)	11,625
Net cash provided by operating activities	100,859	103,615
Cash flows from investing activities:		
Cash used to acquire businesses, net of cash acquired	(84,580)	(166,896)
Capital expenditures	(63,451)	(33,430)
Proceeds from disposal of tangible assets	1,556	15
Proceeds from disposal of business	40,171	—
Net cash used for investing activities	(106,304)	(200,311)
Cash flows from financing activities:		
Payments under borrowing arrangements	(484,757)	(1,105,892)
Payments under share repurchase program	(125,000)	(11,508)
Cash dividends paid	(32,421)	(32,535)
Debt issuance costs paid	(7,609)	(16,586)
Withholding tax payments for share-based payment awards	(2,004)	(5,421)
Redemption of stockholders' rights agreement	(411)	—
Borrowings under credit arrangements	431,270	866,700
Net cash used for financing activities	(220,932)	(305,242)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(5,704)	15,185
Decrease in cash and cash equivalents	(232,081)	(386,753)
Cash and cash equivalents, beginning of period	561,108	848,116
Cash and cash equivalents, end of period	\$329,027	\$461,363

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

BELDEN INC.
CONDENSED CONSOLIDATED STOCKHOLDERS' EQUITY STATEMENT
NINE MONTHS ENDED SEPTEMBER 30, 2018
(Unaudited)

	Belden Inc. Stockholders						Accumulated		Non-controlling Interest Total	
	Mandatory Convertible Preferred Stock Shares	Common Stock Shares	Additional Paid-In Capital Amount	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Other Comprehensive Income (Loss)			
	(In thousands)									
Balance at December 31, 2017	52	\$ 150,335	\$ 503	\$ 1,123,832	\$ 833,610	(8,316)	\$(425,685)	\$(98,026)	\$ 631	\$ 1,434,866
Cumulative effect of change in accounting principles	—	—	—	—	(29,041)	—	—	—	—	(29,041)
Net income (loss)	—	—	—	—	117,368	—	—	—	(148)	117,220
Other comprehensive income, net of tax	—	—	—	—	—	—	—	12,359	(7)	12,352
Exercise of stock options, net of tax withholding forfeitures	—	—	—	(883)	—	20	118	—	—	(765)
Conversion of restricted stock units into common stock, net of tax withholding forfeitures	—	—	—	(1,907)	—	48	668	—	—	(1,239)
Share repurchase program	—	—	—	—	—	(1,782)	(125,000)	—	—	(125,000)
Share-based compensation	—	—	—	14,657	—	—	—	—	—	14,657
Redemption of stockholders' rights agreement	—	—	—	—	(411)	—	—	—	—	(411)
	—	—	—	—	(26,198)	—	—	—	—	(26,198)

Preferred stock dividends											
Common stock dividends (\$0.15 per share)	—	—	—	—	—	(6,139))	—	—	—	(6,139)
Balance at September 30, 2018	52	\$ 1	50,335	\$ 503	\$ 1,135,699	\$ 889,189	(10,030)	\$ (549,899)	\$ (85,667)	\$ 476	\$ 1,390,302

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

BELDEN INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements include Belden Inc. and all of its subsidiaries (the Company, us, we, or our). We eliminate all significant affiliate accounts and transactions in consolidation.

The accompanying Condensed Consolidated Financial Statements presented as of any date other than December 31, 2017:

• Are prepared from the books and records without audit, and

• Are prepared in accordance with the instructions for Form 10-Q and do not include all of the information required by accounting principles generally accepted in the United States for complete statements, but

• Include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial statements.

These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Supplementary Data contained in our 2017 Annual Report on Form 10-K.

Business Description

We are a signal transmission solutions provider built around two global business platforms – Enterprise Solutions and Industrial Solutions. Our comprehensive portfolio of signal transmission solutions provides industry leading secure and reliable transmission of data, sound, and video for mission critical applications.

Reporting Periods

Our fiscal year and fiscal fourth quarter both end on December 31. Our fiscal first quarter ends on the Sunday falling closest to 91 days after December 31, which was April 1, 2018, the 91st day of our fiscal year 2018. Our fiscal second and third quarters each have 91 days. The nine months ended September 30, 2018 and October 1, 2017 included 273 and 274 days, respectively.

Reportable Segments

Effective January 1, 2018, we changed our organizational structure and, as a result, now are reporting two segments. The segments formerly known as Broadcast Solutions and Enterprise Solutions now are presented as the Enterprise Solutions segment, and the segments formerly known as Industrial Solutions and Network Solutions now are presented as the Industrial Solutions segment. The reorganization allows us to further accelerate progress in key strategic areas, and the segment consolidation properly aligns our external reporting with the way the businesses are now managed. We have recast the prior period segment information to conform to the change in the composition of these reportable segments.

Reclassifications

We have made certain reclassifications to the 2017 Condensed Consolidated Financial Statements, including those related to the adoption of Accounting Standards Update No. 2017-07, Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (ASU 2017-07) and our segment change, with no impact to reported net income in order to conform to the 2018 presentation. See Note 5.

Interim Periods of 2017

During the financial closing process for the fourth quarter of 2017, we determined that certain consolidated financial statement amounts were not recorded correctly in prior interim periods of 2017. We evaluated these errors and concluded that they were not material to any of our previously issued interim financial statements and did not require restatement of the quarters. The errors primarily related to recognizing revenue prior to satisfying all of the delivery criteria in one business within our Enterprise segment. All of the errors were corrected as of December 31, 2017. The impact of the errors in the three months ended October 1, 2017 was an overstatement of revenues and net income of \$11.8 million and \$2.6 million, respectively. The impact of the errors in the nine months ended October 1, 2017 was an overstatement of revenues and net income of \$28.3 million and \$6.9 million, respectively.

Fair Value Measurement

Accounting guidance for fair value measurements specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources or reflect our own assumptions of market participant valuation. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets, or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

As of and during the three and nine months ended September 30, 2018 and October 1, 2017, we utilized Level 1 inputs to determine the fair value of cash equivalents, and we utilized Level 2 and Level 3 inputs to determine the fair value of net assets acquired in business combinations (see Note 3). We did not have any transfers between Level 1 and Level 2 fair value measurements during the nine months ended September 30, 2018 and October 1, 2017.

Cash and Cash Equivalents

We classify cash on hand and deposits in banks, including commercial paper, money market accounts, and other investments with an original maturity of three months or less, that we hold from time to time, as cash and cash equivalents. We periodically have cash equivalents consisting of short-term money market funds and other investments. As of September 30, 2018, we did not have any such cash equivalents on hand. The primary objective of our investment activities is to preserve our capital for the purpose of funding operations. We do not enter into investments for trading or speculative purposes.

Contingent Liabilities

We have established liabilities for environmental and legal contingencies that are probable of occurrence and reasonably estimable, the amounts of which are currently not material. We accrue environmental remediation costs based on estimates of known environmental remediation exposures developed in consultation with our environmental consultants and legal counsel. We are, from time to time, subject to routine litigation incidental to our business. These lawsuits primarily involve claims for damages arising out of the use of our products, allegations of patent or trademark infringement, and litigation and administrative proceedings involving employment matters and commercial disputes. Based on facts currently available, we believe the disposition of the claims that are pending or asserted will not have a materially adverse effect on our financial position, results of operations, or cash flow.

As of September 30, 2018, we were party to standby letters of credit, bank guaranties, and surety bonds totaling \$7.3 million, \$3.2 million, and \$2.3 million, respectively.

Gain from Patent Litigation

On July 5, 2011, our wholly-owned subsidiary, PPC Broadband, Inc. (PPC), filed an action for patent infringement against Corning Optical Communications RF LLC (Corning). The complaint alleged that Corning infringed two of PPC's patents. In July 2015, a jury found that Corning willfully infringed both patents. In November 2016, following a series of post-trial motions, the trial judge issued rulings for a total judgment in our favor of approximately \$61.3 million. In December 2016, Corning appealed the case to the U.S. Court of Appeals for the Federal Circuit. In March 2018, a panel of three judges of the United States Court of Appeals for the Federal Circuit issued a Rule 36 Affirmance of the District Court's final judgment that Corning, among other things, willfully infringed the PPC universal compression patents at issue in the case, and that PPC should be awarded approximately \$61.8 million, plus accrued interest. In April 2018, Corning filed a petition for re-hearing, which was denied in May 2018. On July 16, 2018, the District Court ruled that Corning shall pay the judgments. We received a pre-tax amount of approximately \$62.1 million from Corning on July 19, 2018. We recorded the \$62.1 million of cash received as a pre-tax gain from patent litigation during the three and nine months ended September 30, 2018. Prior to the third quarter of 2018, we had not recognized any amounts in our consolidated financial statements related to this matter. On September 27,

2018, Corning filed a petition for certiorari review by the U.S. Supreme Court of the District Court's decision to exercise its discretion to award PPC \$23.85 million in enhanced damages based on the totality of the evidence, including a number of factual findings regarding Corning's willful infringement and egregious

- 6-

conduct. For at least the same reasons why the Federal Circuit affirmed the District Court's decision to enhance damages, we believe that Corning's certiorari petition will not be granted, thus exhausting Corning's opportunities for further appellate relief.

Revenue Recognition

We recognize revenue consistent with the principles as outlined in the following five step model: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) each performance obligation is satisfied. See Note 2.

Subsequent Events

We evaluated subsequent events after the balance sheet date through the financial statement issuance date and did not identify any events that would require disclosure.

Current-Year Adoption of Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which replaced most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. We adopted ASU 2014-09 on January 1, 2018, using the modified retrospective method of adoption. Adoption resulted in a \$2.6 million, net of tax increase to retained earnings. This adjustment primarily relates to the deferral of costs to obtain a contract that were previously expensed at the beginning of the contract period.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). The new guidance addresses how the following eight specific cash flow items are to be presented: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. We adopted ASU 2016-15 on January 1, 2018. The adoption had no material impact on our statement of cash flows for the nine months ended September 30, 2018.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16), which requires recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the standard eliminates the exception to the recognition of current and deferred income taxes for an intra-entity asset transfer other than for inventory until the asset has been sold to an outside party. We adopted ASU 2016-16 on January 1, 2018. The adoption resulted in a \$3.0 million and \$46.9 million decrease to other current assets and other long-lived assets, respectively, as well as an \$18.2 million increase in deferred income tax assets and a \$31.7 million decrease to retained earnings on January 1, 2018. The adoption had no material impact on our results of operations.

In March 2017, the FASB issued ASU 2017-07, which requires an entity to report the service cost component in the same line item or items as other compensation costs arising from the service rendered by their employees during the period. The other components of net benefit cost are required to be presented in the Statement of Operations separately from the service cost component after Operating Income. Additionally, only the service cost component is eligible for capitalization, when applicable. The standard requires the amendments to be applied retrospectively for the presentation of the service cost component and the other cost components of net periodic pension cost and net periodic OPEB cost in the Statement of Operations and prospectively, on and after the effective date, for the capitalization of

the service cost component of net periodic pension and OPEB costs. We adopted ASU 2017-07 on January 1, 2018, and elected to use the practical expedient related to the retrospective presentation requirements. Adoption resulted in a \$0.3 million and \$0.9 million increase to operating income for the three and nine months ended October 1, 2017, respectively, but no changes to net income.

Pending Adoption of Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (ASU 2016-02), a leasing standard for both lessees and lessors that supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840,

"Leases." Under its core principle, a lessee will recognize a right-of-use asset and lease liability on the balance sheet for nearly all leased assets. Lessor accounting remains largely consistent with existing U.S. generally accepted accounting principles. The new standard will be effective for us beginning January 1, 2019, and early adoption is permitted. We will adopt ASU 2016-02 on January 1, 2019. In July 2018, the FASB issued ASU No. 2018-11 ("ASU 2018-11"), Leases: Targeted Improvements, which provides an additional (and optional) transition method for adopting the new lease standard. Under this transition method, an entity initially applies the new lease standard at the adoption date and recognizes a cumulative effect adjustment to opening retained earnings in the period of adoption. Currently, we plan on adopting the new lease standard using the newly permitted transition method. Furthermore, we plan to elect the following practical expedients and accounting policy elections upon adoption: (i) the package of practical expedients as defined in ASU 2016-02, (ii) the short-term lease accounting policy election, (iii) the practical expedient to not separate non-lease components from lease components, and (iv) the easement practical expedient, which permits an entity to continue applying its current policy for accounting for land easements that existed as of the effective date of ASU 2016-02. Although we anticipate the adoption of ASU 2016-02 will have a material impact on our consolidated balance sheets, we do not expect the adoption to have a material impact on our consolidated statements of income. We are completing our assessment of the potential impacts of ASU 2016-02 and also implementing changes to our systems and processes.

In August 2017, the FASB issued Accounting Standards Update No. ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new guidance better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The new guidance also makes certain targeted improvements to simplify the application of hedge accounting guidance and ease the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The standard is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. We do not expect the standard to have a material impact on our consolidated financial statements and related disclosures.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Cuts and Jobs Act (the "Act"). The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or to treat any taxes on GILTI inclusions as a period cost are both acceptable methods subject to an accounting policy election. Pending further review of the guidance related to the application of the GILTI provisions and their impact to Belden, we intend to further assess the materiality of the anticipated GILTI inclusion before making a policy election as allowed under current law as of the date of this report.

In February 2018, the FASB issued ASU No. 2018-02 ("ASU 2018-02"), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. ASU 2018-02 provides an option to allow reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The new guidance is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. We are currently evaluating the impact this update will have on our condensed consolidated financial statements and related disclosures.

In August 2018, the Securities and Exchange Commission ("SEC") adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. Additionally, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period presented. This final rule is effective on November 5, 2018. We are in the process of evaluating the impact of the final rule on its consolidated financial statements.

Note 2: Revenues

On January 1, 2018, we adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the accounting standards in effect for those periods.

We recorded a net increase to retained earnings of \$2.6 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to sales commissions and software revenues within our Industrial Solutions segment. There was no significant impact to revenues for the three and nine months ended September 30, 2018 as a result of applying Topic 606.

Revenues are recognized when control of the promised goods or services is transferred to our customers and in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Taxes collected from customers and

- 8-

Edgar Filing: BELDEN INC. - Form 10-Q

remitted to governmental authorities are not included in our revenues. The following tables present our revenues disaggregated by major product category.

	Cable & Connectivity	Networking, Software & Security	Total Revenues
Three Months Ended September 30, 2018	(In thousands)		
Enterprise Solutions	\$271,928	\$ 116,923	\$ 388,851
Industrial Solutions	162,460	104,463	266,923
Total	\$434,388	\$ 221,386	\$ 655,774

Three Months Ended October 1, 2017			
Enterprise Solutions	\$262,212	\$ 98,630	\$ 360,842
Industrial Solutions	160,520	100,383	260,903
Total	\$422,732	\$ 199,013	\$ 621,745

Nine Months Ended September 30, 2018			
Enterprise Solutions	\$785,970	\$ 348,906	\$ 1,134,876
Industrial Solutions	498,062	297,040	795,102
Total	\$1,284,032	\$ 645,946	\$ 1,929,978

Nine Months Ended October 1, 2017			
Enterprise Solutions	\$751,459	\$ 272,465	\$ 1,023,924
Industrial Solutions	466,155	293,680	759,835
Total	\$1,217,614	\$ 566,145	\$ 1,783,759

The following tables present our revenues disaggregated by geography, based on the location of the customer purchasing the product.

	Americas	EMEA	APAC	Total Revenues
Three Months Ended September 30, 2018	(In thousands)			
Enterprise Solutions	\$254,320	\$72,467	\$62,064	\$388,851
Industrial Solutions	156,334	71,280	39,309	266,923
Total	\$410,654	\$143,747	\$101,373	\$655,774
Three Months Ended October 1, 2017				
Enterprise Solutions	\$243,223	\$61,270	\$56,349	\$360,842
Industrial Solutions	150,229	72,718	37,956	260,903
Total	\$393,452	\$133,988	\$94,305	\$621,745
Nine Months Ended September 30, 2018				
Enterprise Solutions	\$735,794	\$228,394	\$170,688	\$1,134,876
Industrial Solutions	461,667	217,851	115,584	795,102
Total	\$1,197,461	\$446,245	\$286,272	\$1,929,978
Nine Months Ended October 1, 2017				
Enterprise Solutions	\$690,568	\$168,947	\$164,409	\$1,023,924
Industrial Solutions	448,675	205,050	106,110	759,835
Total	\$1,139,243	\$373,997	\$270,519	\$1,783,759

The following tables present our revenues disaggregated by products, including software products, and support and services.

- 9-

	Products	Support & Services	Total Revenues
Three Months Ended September 30, 2018 (In thousands)			
Enterprise Solutions	\$368,389	\$20,462	\$ 388,851
Industrial Solutions	243,578	23,345	266,923
Total	\$611,967	\$43,807	\$ 655,774
Three Months Ended October 1, 2017			
Enterprise Solutions	\$342,216	\$18,626	\$ 360,842
Industrial Solutions	235,378	25,525	260,903
Total	\$577,594	\$44,151	\$ 621,745
Nine Months Ended September 30, 2018			
Enterprise Solutions	\$1,080,549	\$54,327	\$ 1,134,876
Industrial Solutions	723,653	71,449	795,102
Total	\$1,804,202	\$125,776	\$ 1,929,978
Nine Months Ended October 1, 2017			
Enterprise Solutions	\$968,855	\$55,069	\$ 1,023,924
Industrial Solutions	683,121	76,714	759,835
Total	\$1,651,976	\$131,783	\$ 1,783,759

We generate revenues primarily by selling products that provide secure and reliable transmission of data, sound, and video for mission critical applications. We also generate revenues from providing support and professional services. We sell our products to distributors, end-users, installers, and directly to original equipment manufacturers. At times, we enter into arrangements that involve the delivery of multiple performance obligations. For these arrangements, revenue is allocated to each performance obligation based on its relative selling price and recognized when or as each performance obligation is satisfied. Most of our performance obligations related to the sale of products are satisfied at a point in time when control of the product is transferred based on the shipping terms of the arrangement. Generally, we determine relative selling price using the prices charged to customers on a standalone basis.

The amount of consideration we receive and revenue we recognize varies due to rebates, returns, and price adjustments. We estimate the expected rebates, returns, and price adjustments based on an analysis of historical experience, anticipated sales demand, and trends in product pricing. We adjust our estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed. Adjustments to revenue for performance obligations satisfied in prior periods was not significant during the three and nine months ended September 30, 2018. Accrued rebates and accrued returns as of September 30, 2018 totaled \$30.1 million and \$9.3 million, respectively. Estimated price adjustments recognized against our gross accounts receivable balance as of September 30, 2018 totaled \$29.0 million.

Depending on the terms of an arrangement, we may defer the recognition of a portion of the consideration received because we have to satisfy a future obligation. Consideration allocated to support services under a support and maintenance contract is typically paid in advance and recognized ratably over the term of the service. Consideration allocated to professional services is recognized when or as the services are performed depending on the terms of the arrangement. As of January 1, 2018, total deferred revenue was \$104.4 million, and \$50.8 million and \$149.4 million was recognized as revenue during the three and nine months ended September 30, 2018, respectively. As of September 30, 2018, total deferred revenue was \$90.8 million, and of this amount, \$78.5 million will be recognized within the next twelve months, and the remaining \$12.3 million is long-term and will be recognized over a period greater than twelve months.

We expense sales commissions as incurred when the duration of the related revenue arrangement is one year or less. We capitalize sales commissions in other current and long-lived assets on our balance sheet when the duration of the related revenue arrangement is longer than one year, and we amortize it over the related revenue arrangement period. Total capitalized sales commissions was \$2.3 million as of September 30, 2018. Total sales commissions costs were \$5.9 million and \$18.4 million during the three and nine months ended September 30, 2018, respectively. Sales commissions are recorded within selling, general and administrative expenses.

Note 3: Acquisitions

Net-Tech Technology, Inc.

- 10-

We acquired 100% of the shares of Net-Tech Technology, Inc. (NT2) on April 25, 2018 for a preliminary purchase price of \$8.5 million that was funded with cash on hand. NT2 is an integrator of optical passive components and network optimization products used within broadband network applications where optical backhaul is used. NT2 is located in the United States. The results of NT2 have been included in our Consolidated Financial Statements from April 25, 2018, and are reported within the Enterprise Solutions segment. The NT2 acquisition was not material to our financial position or results of operations.

Snell Advanced Media

We acquired 100% of the outstanding ownership interest in Snell Advanced Media (SAM) on February 8, 2018 for a purchase price, net of cash acquired, of \$104.5 million that was funded with cash on hand. The acquisition includes a potential earnout, which is based upon future combined earnings of SAM and Grass Valley through December 31, 2019. The maximum earnout consideration is \$31.4 million, but based upon a third party valuation specialist using certain assumptions in a discounted cash flow model, the preliminary estimated fair value of the earnout included in the purchase price is \$29.3 million. We assumed debt of \$19.3 million and paid it off during the first quarter of 2018. SAM designs, manufactures, and sells innovative content production and distribution systems for the broadcast and media markets. SAM is located in the United Kingdom. The results of SAM have been included in our Consolidated Financial Statements from February 8, 2018, and are reported within the Enterprise Solutions segment. The following table summarizes the estimated, preliminary fair value of the assets acquired and the liabilities assumed as of February 8, 2018 (in thousands):

Receivables	\$ 17,182
Inventory	15,312
Prepaid and other current assets	3,375
Property, plant, and equipment	7,789
Intangible assets	54,100
Goodwill	87,853
Deferred taxes	5,476
Other long-lived assets	2,156
Total assets acquired	\$ 193,243
Accounts payable	\$ 11,927
Accrued liabilities	21,614
Deferred revenue	3,924
Long-term debt	19,315
Postretirement benefits	31,343
Other long-term liabilities	591
Total liabilities assumed	\$ 88,714
Net assets	\$ 104,529

The above purchase price allocation is preliminary, and is subject to revision as additional information about the fair value of individual assets and liabilities becomes available. The preliminary measurement of receivables; inventories; property, plant and equipment; intangible assets; goodwill; deferred income taxes; deferred revenue; and other assets and liabilities are subject to change. A change in the estimated fair value of the net assets acquired will change the amount of the purchase price allocable to goodwill.

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The judgments we have used in estimating the preliminary fair values assigned to each class of acquired assets and assumed liabilities could materially affect the results of our operations.

The preliminary fair value of acquired receivables is \$17.2 million, which is equivalent to its gross contractual amount.

For purposes of the above allocation, we based our estimates of the preliminary fair values for the acquired inventory; property, plant, and equipment; intangible assets; and deferred revenue on preliminary valuation studies performed by a third party valuation firm. We have estimated a preliminary fair value adjustment for inventories based on the estimated selling price of the work-in-process and finished goods acquired at the closing date less the sum of the costs to complete the work-in-process, the costs of

- 11-

disposal, and a reasonable profit allowance for our post acquisition selling efforts. To determine the value of the acquired property, plant, and equipment, we used various valuation methods, including both the market approach, which considers sales prices of similar assets in similar conditions (Level 2 valuation), and the cost approach, which considers the cost to replace the asset adjusted for depreciation (Level 3 valuation). We used various valuation methods including discounted cash flows, lost income, excess earnings, and relief from royalty to estimate the preliminary fair value of the identifiable intangible assets and deferred revenue (Level 3 valuation).

Goodwill and other intangible assets reflected above were determined to meet the criteria for recognition apart from tangible assets acquired and liabilities assumed. The goodwill is primarily attributable to expected synergies and the assembled workforce. The expected synergies for the SAM acquisition may be gained from helping broadcast and media content creators, aggregators and distributors significantly improve their effectiveness and efficiency during a period of rapid change in technology, viewer and advertiser behavior and business models. Our tax basis in the acquired goodwill is zero. The intangible assets related to the acquisition consisted of the following:

	Preliminary Fair Value (In thousands)	Amortization Period (In years)
Intangible assets subject to amortization:		
Developed technologies	\$ 38,100	5.0
Customer relationships	12,300	12.0
Sales backlog	2,000	0.3
Trademarks	1,700	0.9
Total intangible assets subject to amortization	\$ 54,100	
Intangible assets not subject to amortization:		
Goodwill	\$ 87,853	n/a
Total intangible assets not subject to amortization	\$ 87,853	
Total intangible assets	\$ 141,953	
Weighted average amortization period		6.3 years

The amortizable intangible assets reflected in the table above were determined by us to have finite lives. The useful life for the developed technology intangible asset was based on the estimated time that the technology provides us with a competitive advantage and thus approximates the period and pattern of consumption of the intangible asset. The useful life for the customer relationship intangible asset was based on our forecasts of estimated sales from recurring customers. The useful life of the backlog intangible asset was based on our estimate of when the ordered items would ship. The useful life for the trademarks was based on the period of time we expect to continue to go to market using the trademarks.

Our consolidated revenues for the three and nine months ended September 30, 2018 included an estimated \$25.3 million and \$77.2 million, respectively, from SAM. Due to the integration of SAM into our existing business, we are unable to reasonably estimate the amount of income before taxes from SAM included in our consolidated financial statements. Our consolidated income before taxes for the three months ended September 30, 2018 included \$7.1 million of severance and other restructuring costs, \$3.7 million of amortization of intangible assets, and \$0.6 million of cost of sales related to the adjustment of acquired inventory to fair value from SAM. Our consolidated income before taxes for the nine months ended September 30, 2018 included \$36.6 million of severance and other restructuring costs, \$8.7 million of amortization of intangible assets, and \$1.8 million of cost of sales related to the adjustment of acquired inventory to fair value from SAM.

The following table illustrates the unaudited pro forma effect on operating results as if the SAM acquisition had been completed as of January 1, 2017.

- 12-

Three Months Ended Nine Months Ended
September 30, 2018 October 1, 2017 September 30, 2018 October 1, 2017

(In thousands, except per share data)
(Unaudited)

Revenues	\$659,003	\$644,017	\$1,944,628	\$1,857,885
Net income (loss) attributable to Belden common stockholders	92,769	(24,050)	126,937	(19,056)
Diluted income (loss) per share attributable to Belden common stockholders	\$2.13	\$(0.57)	\$3.08	\$(0.45)

For purposes of the pro forma disclosures, the three months ended October 1, 2017 includes nonrecurring expenses related to the acquisition, including severance, restructuring, and acquisition integration costs; amortization of the sales backlog intangible asset; and cost of sales arising from the adjustment of inventory to fair value of \$7.1 million, \$0.2 million, and \$0.2 million, respectively. For purposes of the pro forma disclosures, the nine months ended October 1, 2017 includes nonrecurring expenses related to the acquisition, including severance, restructuring, and acquisition integration costs; amortization of the sales backlog intangible asset; and cost of sales arising from the adjustment of inventory to fair value of \$36.6 million, \$2.0 million, and \$1.7 million, respectively.

The above unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations would have been had we completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods. Pro forma adjustments exclude cost savings from any synergies resulting from the acquisition.

Thinklogical Holdings, LLC

We acquired 100% of the outstanding ownership interest in Thinklogical Holdings, LLC (Thinklogical) on May 31, 2017 for a purchase price, net of cash acquired, of \$165.8 million. Thinklogical designs, manufactures, and markets high-bandwidth fiber matrix switches, video, and keyboard/video/mouse extender solutions, camera extenders, and console management solutions. Thinklogical is headquartered in Connecticut. The results of Thinklogical have been included in our Consolidated Financial Statements from May 31, 2017, and are reported within the Enterprise Solutions segment. The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed as of May 31, 2017 (in thousands):

Receivables	\$4,355
Inventory	16,424
Prepaid and other current assets	320
Property, plant, and equipment	4,289
Intangible assets	73,400
Goodwill	70,654
Deferred income taxes	598
Total assets acquired	\$170,040
Accounts payable	\$1,231
Accrued liabilities	1,353
Deferred revenue	1,702
Total liabilities assumed	\$4,286
Net assets	\$165,754

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The judgments we have used in estimating the fair values assigned to each class of acquired assets and assumed liabilities could materially affect the results of our operations.

The fair value of acquired receivables is \$4.4 million, which is equivalent to its gross contractual amount.

- 13-

For purposes of the above allocation, we based our estimate of the fair value for the acquired inventory, intangible assets, and deferred revenue on a valuation study performed by a third party valuation firm. We used various valuation methods including discounted cash flows, lost income, excess earnings, and relief from royalty to estimate the preliminary fair value of the identifiable intangible assets and deferred revenue (Level 3 valuation). The determination of the fair value of the assets acquired and liabilities assumed and the allocation of the purchase price is complete.

Goodwill and other intangible assets reflected above were determined to meet the criteria for recognition apart from tangible assets acquired and liabilities assumed. The goodwill is primarily attributable to expected synergies and the assembled workforce. The expected synergies for the Thinklogical acquisition primarily consist of utilizing Belden's fiber and connectivity portfolio with Thinklogical's connections between matrix switch, control systems, transmitters and source to expand our product portfolio across our segments to both existing and new customers. Our tax basis in the acquired goodwill is approximately \$43.3 million and is deductible for tax purposes over a period of 15 years up to the amount of the tax basis. The intangible assets related to the acquisition consisted of the following:

	Preliminary Fair Value (In thousands)	Amortization Period (In years)
Intangible assets subject to amortization:		
Developed technologies	\$ 62,600	10.0
Customer relationships	6,500	8.0
Trademarks	2,900	10.0
Sales backlog	1,400	0.3
Total intangible assets subject to amortization	\$ 73,400	
Intangible assets not subject to amortization:		
Goodwill	\$ 70,654	n/a
Total intangible assets not subject to amortization	\$ 70,654	
Total intangible assets	\$ 144,054	
Weighted average amortization period		9.6

The amortizable intangible assets reflected in the table above were determined by us to have finite lives. The useful life for the customer relationship intangible asset was based on our forecasts of estimated sales from recurring customers. The useful life for the trademarks was based on the period of time we expect to continue to go to market using the trademarks. The useful life for the developed technology intangible asset was based on the estimated time that the technology provides us with a competitive advantage and thus approximates the period and pattern of consumption of the intangible asset. The useful life of the backlog intangible asset was based on our estimate of when the ordered items would ship.

Our consolidated revenues and consolidated income before taxes for the three months ended September 30, 2018 included \$15.2 million and \$2.6 million, respectively, from Thinklogical. The income before taxes from Thinklogical included \$3.2 million of amortization of intangible assets. Our consolidated revenues and consolidated income before taxes for the nine months ended September 30, 2018 included \$32.6 million and \$(0.5) million, respectively, from Thinklogical. Thinklogical's loss before taxes included \$9.5 million of amortization of intangible assets and \$0.5 million of severance and other restructuring costs.

The following table illustrates the unaudited pro forma effect on operating results as if the Thinklogical acquisition had been completed as of January 1, 2016.

	Three Months Ended October 1, 2017	Nine Months Ended October 1, 2017
	(In thousands, except per share data) (Unaudited)	
Revenues	\$621,745	\$1,792,614
Net income (loss) attributable to Belden common stockholders	(5,128)	37,097
Diluted income (loss) per share attributable to Belden common stockholders	\$(0.12)	\$0.87

The above unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations would have been had we completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods. Pro forma adjustments exclude cost savings from any synergies resulting from the acquisition.

Note 4: Disposals

During the fourth quarter of 2016, we committed to a plan to sell our MCS business and Hirschmann JV. The MCS business operated in Germany and the United States and was part of the Industrial Solutions segment, and the Hirschmann JV was an equity method investment located in China. Effective December 31, 2017, we sold the MCS business and Hirschmann JV for a total purchase price of \$40.2 million, which was collected in the nine months ended September 30, 2018.

During the nine months ended September 30, 2018, we also sold a previously closed operating facility for net proceeds of \$1.5 million and recognized a \$0.6 million gain on the sale.

Note 5: Reportable Segments

Effective January 1, 2018, we changed our organizational structure and, as a result, now are reporting two segments. The segments formerly known as Broadcast Solutions and Enterprise Solutions now are presented as the Enterprise Solutions segment, and the segments formerly known as Industrial Solutions and Network Solutions now are presented as the Industrial Solutions segment. The reorganization allows us to further accelerate progress in key strategic areas, and the segment consolidation properly aligns our external reporting with the way the businesses are now managed. We have recast the prior period segment information to conform to the change in the composition of these reportable segments. This change had no impact to our reporting units for purposes of goodwill impairment testing.

The key measures of segment profit or loss reviewed by our chief operating decision maker are Segment Revenues and Segment EBITDA. Segment Revenues represent non-affiliate revenues and include revenues that would have otherwise been recorded by acquired businesses as independent entities but were not recognized in our Consolidated Statements of Operations and Comprehensive Income due to the effects of purchase accounting and the associated write-down of acquired deferred revenue to fair value. Segment EBITDA excludes certain items, including depreciation expense; amortization of intangibles; asset impairment; severance, restructuring, and acquisition integration costs; purchase accounting effects related to acquisitions, such as the adjustment of acquired inventory and deferred revenue to fair value; and other costs. We allocate corporate expenses to the segments for purposes of measuring Segment EBITDA. Corporate expenses are allocated on the basis of each segment's relative EBITDA prior to the allocation.

Our measure of segment assets does not include cash, goodwill, intangible assets, deferred tax assets, or corporate assets. All goodwill is allocated to reporting units of our segments for purposes of impairment testing.

- 15-

Edgar Filing: BELDEN INC. - Form 10-Q

Enterprise Industrial Total
Solutions Solutions Segments

(In thousands)

As of and for the three months ended September 30, 2018

Segment revenues	\$ 392,080	\$ 266,923	\$ 659,003
Affiliate revenues	1,776	15	1,791
Segment EBITDA	72,210	53,750	125,960
Depreciation expense	7,092	4,579	11,671
Amortization of intangibles	12,322	13,211	25,533
Amortization of software development intangible assets	620	—	620
Severance, restructuring, and acquisition integration costs	9,528	2,160	11,688
Purchase accounting effects of acquisitions	821	—	821
Deferred revenue adjustments	3,229	—	3,229
Segment assets	766,505	448,626	1,215,131

As of and for the three months ended October 1, 2017

Segment revenues	\$ 360,842	\$ 260,903	\$ 621,745
Affiliate revenues	971	2	973
Segment EBITDA	62,109	55,747	117,856
Depreciation expense	6,828	4,855	11,683
Amortization of intangibles	13,920	13,242	27,162
Severance, restructuring, and acquisition integration costs	9,309	7,370	16,679
Purchase accounting effects of acquisitions	2,922	—	2,922
Segment assets	658,175	400,538	1,058,713

As of and for the nine months ended September 30, 2018

Segment revenues	\$ 1,142,765	\$ 795,102	\$ 1,937,867
Affiliate revenues	4,318	61	4,379
Segment EBITDA	199,943	153,401	353,344
Depreciation expense	21,465	14,097	35,562
Amortization of intangibles	35,301	39,689	74,990
Amortization of software development intangible assets	1,344	—	1,344
Severance, restructuring, and acquisition integration costs	46,949	10,061	57,010
Purchase accounting effects of acquisitions	2,359	—	2,359
Deferred revenue adjustments	7,889	—	7,889
Segment assets	766,505	448,626	1,215,131

As of and for the nine months ended October 1, 2017

Segment revenues	\$ 1,023,924	\$ 759,835	\$ 1,783,759
Affiliate revenues	4,084	51	4,135
Segment EBITDA	168,073	153,675	321,748
Depreciation expense	20,129	14,465	34,594
Amortization of intangibles	38,241	39,703	77,944
Severance, restructuring, and acquisition integration costs	23,701	9,138	32,839
Purchase accounting effects of acquisitions	4,089	—	4,089
Segment assets	658,175	400,538	1,058,713

The following table is a reconciliation of the total of the reportable segments' Revenues and EBITDA to consolidated revenues and consolidated income before taxes, respectively.

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017

(In thousands)

Total Segment Revenues	\$659,003	\$621,745	\$1,937,867	\$1,783,759
Deferred revenue adjustments (1)	(3,229)	—	(7,889)	—
Consolidated Revenues	\$655,774	\$621,745	\$1,929,978	\$1,783,759
Total Segment EBITDA	\$125,960	\$117,856	\$353,344	\$321,748
Gain from patent litigation	62,141	—	62,141	—
Costs related to patent litigation	(2,634)	—	(2,634)	—
Amortization of intangibles	(25,533)	(27,162)	(74,990)	(77,944)
Severance, restructuring, and acquisition integration costs (2)	(11,688)	(16,679)	(57,010)	(32,839)
Depreciation expense	(11,671)	(11,683)	(35,562)	(34,594)
Deferred revenue adjustments (1)	(3,229)	—	(7,889)	—
Purchase accounting effects related to acquisitions (3)	(821)	(2,922)	(2,359)	(4,089)
Amortization of software development intangible assets	(620)	—	(1,344)	—
Loss on sale of assets	—	—	(94)	—
Income from equity method investment	—	2,551	—	5,835
Eliminations	(627)	(845)	(1,616)	(2,628)
Consolidated operating income	131,278	61,116	231,987	175,489
Interest expense, net	(14,472)	(19,385)	(46,538)	(66,424)
Non-operating pension benefit (cost)	1,356	(325)	824	(880)
Loss on debt extinguishment	—	(51,594)	(22,990)	(52,441)
Consolidated income (loss) before taxes	\$118,162	\$(10,188)	\$163,283	\$55,744

(1) For the three and nine months ended September 30, 2018, our segment results include revenues that would have been recorded by acquired businesses had they remained as independent entities. Our consolidated results do not include these revenues due to the purchase accounting effect of recording deferred revenue at fair value.

(2) See Note 9, Severance, Restructuring, and Acquisition Integration Activities, for details.

(3) For the three and nine months ended September 30, 2018, we recognized cost of sales for the adjustment of acquired inventory to fair value related to the SAM and NT2 acquisitions.

Note 6: Income per Share

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

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
	(In thousands)			
Numerator:				
Net income	\$85,858	\$ 945	\$ 117,220	\$ 62,417
Less: Net loss attributable to noncontrolling interest	(23)	(82)	(148)	(274)
Less: Preferred stock dividends	8,732	8,732	26,198	26,198
Net income (loss) attributable to Belden common stockholders for basic income (loss) per share	\$77,149	\$(7,705)	\$91,170	\$ 36,493
Plus: Preferred stock dividends	8,732	—	—	—
Net income (loss) attributable to Belden common stockholders for diluted income (loss) per share	\$85,881	\$(7,705)	\$91,170	\$ 36,493
Denominator:				
Weighted average shares outstanding, basic	40,510	42,256	40,960	42,251
Assumed conversion of preferred stock into common stock	6,857	—	—	—
Effect of dilutive common stock equivalents	311	—	308	412
Weighted average shares outstanding, diluted	47,678	42,256	41,268	42,663

For the three and nine months ended September 30, 2018, diluted weighted average shares outstanding do not include outstanding equity awards of 0.9 million and 0.8 million, respectively, because to do so would have been anti-dilutive. In addition, for the three and nine months ended September 30, 2018, diluted weighted average shares outstanding do not include outstanding equity awards of 0.3 million and 0.2 million, respectively, because the related performance conditions have not been satisfied. Furthermore, for the nine months ended September 30, 2018, diluted weighted average shares outstanding do not include the impact of preferred shares that are convertible into 6.9 million common shares, because deducting the preferred stock dividends from net income was more dilutive.

For the three and nine months ended October 1, 2017, diluted weighted average shares outstanding do not include outstanding equity awards of 0.9 million and 0.5 million, respectively, because to do so would have been anti-dilutive. In addition, for both the three and nine months ended October 1, 2017, diluted weighted average shares outstanding do not include outstanding equity awards of 0.2 million because the related performance conditions have not been satisfied. Furthermore, for the three and nine months ended October 1, 2017, diluted weighted average shares outstanding do not include the impact of preferred shares that are convertible into 6.8 million and 6.9 million common shares, respectively, because deducting the preferred stock dividends from net income was more dilutive.

For purposes of calculating basic earnings per share, unvested restricted stock units are not included in the calculation of basic weighted average shares outstanding until all necessary conditions have been satisfied and issuance of the shares underlying the restricted stock units is no longer contingent. Necessary conditions are not satisfied until the vesting date, at which time holders of our restricted stock units receive shares of our common stock.

For purposes of calculating diluted earnings per share, unvested restricted stock units are included to the extent that they are dilutive. In determining whether unvested restricted stock units are dilutive, each issuance of restricted stock units is considered separately.

Once a restricted stock unit has vested, it is included in the calculation of both basic and diluted weighted average shares outstanding.

Note 7: Inventories

The major classes of inventories were as follows:

September December
30, 2018 31, 2017

(In thousands)

Raw materials	\$164,925	\$133,311
Work-in-process	45,054	35,807
Finished goods	142,297	153,377
Gross inventories	352,276	322,495
Excess and obsolete reserves	(30,082)	(25,269)
Net inventories	\$322,194	\$297,226

Note 8: Long-Lived Assets

Depreciation and Amortization Expense

We recognized depreciation expense of \$11.7 million and \$35.6 million in the three and nine months ended September 30, 2018, respectively. We recognized depreciation expense of \$11.7 million and \$34.6 million in the three and nine months ended October 1, 2017, respectively.

We recognized amortization expense related to our intangible assets of \$26.2 million and \$76.3 million in the three and nine months ended September 30, 2018, respectively. We recognized amortization expense related to our intangible assets of \$27.2 million and \$77.9 million in the three and nine months ended October 1, 2017, respectively.

Note 9: Severance, Restructuring, and Acquisition Integration Activities

Grass Valley and SAM Integration Program: 2018

During the first quarter of 2018, we began a restructuring program to integrate SAM with Grass Valley. The restructuring and integration activities are focused on achieving desired cost savings by consolidating existing and acquired facilities and other support functions. We recognized \$7.1 million and \$36.6 million of severance and other restructuring costs for this program during the three and nine months ended September 30, 2018, respectively. The costs were incurred by the Enterprise Solutions segment. We expect to incur approximately \$12 million of additional severance and restructuring costs for this program, which will be incurred during the fourth quarter of 2018 and first quarter of 2019.

Industrial Manufacturing Footprint Program: 2016 - 2018

In 2016, we began a program to consolidate our manufacturing footprint. This program is expected to be completed by the end of 2018. We recognized \$4.3 million and \$15.8 million of severance and other restructuring costs for this program during the three and nine months ended September 30, 2018, respectively. We recognized \$11.4 million and \$25.3 million of severance and other restructuring costs for this program during the three and nine months ended October 1, 2017, respectively. The costs were incurred by the Enterprise Solutions and Industrial Solutions segments, as the manufacturing locations involved in the program serve both platforms. To date, we have incurred a total of \$64.1 million in severance and other restructuring costs, including manufacturing inefficiencies for this program. The following table summarizes the costs by segment of the various programs described above as well as other immaterial programs and acquisition integration activities:

	Severance	Other Restructuring and Integration Costs	Total Costs
Three Months Ended September 30, 2018	(In thousands)		
Enterprise Solutions	\$(1,283)	\$ 10,811	\$ 9,528
Industrial Solutions	136	2,024	2,160
Total	\$(1,147)	\$ 12,835	\$ 11,688
Three Months Ended October 1, 2017			
Enterprise Solutions	\$1,222	\$ 8,087	\$ 9,309
Industrial Solutions	712	6,658	7,370
Total	\$1,934	\$ 14,745	\$ 16,679
Nine Months Ended September 30, 2018			
Enterprise Solutions	\$10,097	\$ 36,852	\$ 46,949
Industrial Solutions	378	9,683	10,061
Total	\$10,475	\$ 46,535	\$ 57,010
Nine Months Ended October 1, 2017			
Enterprise Solutions	\$3,398	\$ 20,303	\$ 23,701
Industrial Solutions	865	8,273	9,138
Total	\$4,263	\$ 28,576	\$ 32,839

Of the total severance, restructuring, and acquisition integration costs recognized in the three months ended September 30, 2018, \$4.8 million, \$6.4 million, and \$0.5 million were included in cost of sales; selling, general and administrative expenses; and research and development, respectively. Of the total severance, restructuring, and acquisition integration costs recognized in the three months ended October 1, 2017, \$12.4 million, \$4.2 million, and \$0.1 million were included in cost of sales; selling, general and administrative expenses; and research and development, respectively.

Of the total severance, restructuring, and acquisition integration costs recognized in the nine months ended September 30, 2018, \$21.4 million, \$30.3 million, and \$5.3 million were included in cost of sales; selling, general and administrative expenses; and research and development, respectively. Of the total severance, restructuring, and acquisition integration costs recognized in the nine months ended October 1, 2017, \$26.5 million, \$6.2 million, and \$0.1 million were included in cost of sales; selling, general and administrative expenses; and research and development, respectively.

The net credit to severance expense for the Enterprise Solutions segment in the three months ended September 30, 2018 is attributable to voluntary employee turnover in advance of receiving severance benefits, thus resulting in the reversal of previously accrued severance expense. The other restructuring and integration costs primarily consisted of equipment transfer, costs to consolidate operating and support facilities, retention bonuses, relocation, travel, legal, and other costs. The majority of the other restructuring and integration costs related to these actions were paid as incurred or are payable within the next 60 days.

Accrued Severance

The table below summarizes the significant severance activity that occurred during the year for the Grass Valley and SAM Integration Program described above. The balances are included in accrued liabilities.

Grass
Valley and
SAM
Integration
Program

	(In thousands)
Balance at December 31, 2017	\$ —
New charges	456
Cash payments	(50)
Balance at April 1, 2018	\$ 406
New charges	10,714
Cash payments	(7,556)
Foreign currency translation	(4)
Balance at July 1, 2018	\$ 3,560
New charges	121
Cash payments	(989)
Foreign currency translation	(9)
Other adjustments	(1,531)
Balance at September 30, 2018	\$ 1,152

Note 10: Long-Term Debt and Other Borrowing Arrangements

The carrying values of our long-term debt were as follows:

	September 30, 2018	December 31, 2017
	(In thousands)	
Revolving credit agreement due 2022	\$—	\$—
Senior subordinated notes:		
3.875% Senior subordinated notes due 2028	411,110	—
3.375% Senior subordinated notes due 2027	528,570	540,810
4.125% Senior subordinated notes due 2026	234,920	240,360
2.875% Senior subordinated notes due 2025	352,380	360,540
5.25% Senior subordinated notes due 2024	—	200,000
5.50% Senior subordinated notes due 2023	—	242,522
Total senior subordinated notes	1,526,980	1,584,232
Less unamortized debt issuance costs	(23,383)	(23,484)
Long-term debt	\$1,503,597	\$1,560,748

Revolving Credit Agreement due 2022

Our Revolving Credit Agreement provides a \$400.0 million multi-currency asset-based revolving credit facility (The Revolver). The borrowing base under the Revolver includes eligible accounts receivable; inventory; and property, plant and equipment of certain of our subsidiaries in the U.S., Canada, Germany, and the Netherlands. The maturity date of the Revolver is May 16, 2022. Interest on outstanding borrowings is variable, based upon LIBOR or other similar indices in foreign jurisdictions, plus a spread that ranges from 1.25%-1.75%, depending upon our leverage position. We pay a commitment fee on our available borrowing capacity of 0.25%. In the event we borrow more than 90% of our borrowing base, we are subject to a fixed charge coverage ratio covenant. As of September 30, 2018, we had no borrowings outstanding on the Revolver, and our available borrowing capacity was \$359.8 million.

Senior Subordinated Notes

In March 2018, we completed an offering for €350.0 million (\$431.3 million at issuance) aggregate principal amount of 3.875% senior subordinated notes due 2028 (the 2028 Notes). The carrying value of the 2028 Notes as of September 30, 2018 is \$411.1

- 21-

million. The 2028 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2028 Notes rank equal in right of payment with our senior subordinated notes due 2027, 2026, and 2025 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on March 15 and September 15 of each year, beginning on September 15, 2018. We paid approximately \$7.5 million of fees associated with the issuance of the 2028 Notes, which will be amortized over the life of the 2028 Notes using the effective interest method. We used the net proceeds from this offering and cash on hand to repurchase the 2023 and 2024 Notes - see further discussion below.

We have outstanding €450.0 million aggregate principal amount of 3.375% senior subordinated notes due 2027 (the 2027 Notes). The carrying value of the 2027 Notes as of September 30, 2018 is \$528.6 million. The 2027 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2027 Notes rank equal in right of payment with our senior subordinated notes due 2028, 2026, and 2025 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on January 15 and July 15 of each year.

We have outstanding €200.0 million aggregate principal amount of 4.125% senior subordinated notes due 2026 (the 2026 Notes). The carrying value of the 2026 Notes as of September 30, 2018 is \$234.9 million. The 2026 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2026 Notes rank equal in right of payment with our senior subordinated notes due 2028, 2027, and 2025 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on April 15 and October 15 of each year.

We have outstanding €300.0 million aggregate principal amount of 2.875% senior subordinated notes due 2025 (the 2025 Notes). The carrying value of the 2025 Notes as of September 30, 2018 is \$352.4 million. The 2025 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2025 Notes rank equal in right of payment with our senior subordinated notes due 2028, 2027, and 2026 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on March 15 and September 15 of each year.

We had outstanding \$200.0 million aggregate principal amount of 5.25% senior subordinated notes due 2024 (the 2024 Notes). In March 2018, we repurchased \$188.7 million of the \$200.0 million 2024 Notes outstanding for cash consideration of \$199.8 million, including a prepayment penalty and recognized a \$13.8 million loss on debt extinguishment including the write-off of unamortized debt issuance costs. In April 2018, we repurchased the remaining 2024 Notes outstanding for cash consideration of \$11.9 million, including a prepayment penalty, and recognized a \$0.8 million loss on debt extinguishment including the write-off of unamortized debt issuance costs.

We had outstanding €200.0 million aggregate principal amount of 5.5% senior subordinated notes due 2023 (the 2023 Notes). In March 2018, we repurchased €143.1 million of the €200.0 million 2023 Notes outstanding for cash consideration of €147.8 million (\$182.1 million), including a prepayment penalty and recognized a \$6.2 million loss on debt extinguishment including the write-off of unamortized debt issuance costs. In April 2018, we repurchased the remaining 2023 Notes outstanding for cash consideration of €58.5 million (\$71.6 million), including a prepayment penalty, and recognized a \$2.2 million loss on debt extinguishment including the write-off of unamortized debt issuance costs.

Fair Value of Long-Term Debt

The fair value of our senior subordinated notes as of September 30, 2018 was approximately \$1,526.9 million based on quoted prices of the debt instruments in inactive markets (Level 2 valuation). This amount represents the fair value of our senior subordinated notes with a carrying value of \$1,527.0 million as of September 30, 2018.

Note 11: Net Investment Hedge

All of our euro denominated notes were issued by Belden Inc., a USD functional currency entity. As of September 30, 2018, all of our outstanding foreign denominated debt is designated as a net investment hedge on the foreign currency risk of our net investment in our euro foreign operations. The objective of the hedge is to protect the net investment in the foreign operation against adverse changes in exchange rates. The transaction gain or loss is reported in the cumulative translation adjustment section of other comprehensive income. The amount of the cumulative translation

adjustment associated with these notes for the nine month periods ended September 30, 2018 and October 1, 2017 was a gain of \$46.3 million and a loss of \$25.3 million, respectively.

- 22-

Note 12: Income Taxes

For the three and nine months ended September 30, 2018, we recognized income tax expense of \$32.3 million and \$46.1 million, respectively, representing an effective tax rate of 27.3% and 28.2%, respectively. The effective tax rate was impacted by the following significant factors:

We recognized income tax expense of \$3.8 million and \$4.3 million, respectively, in the three and nine months ended September 30, 2018 as a result of changes in our valuation allowance for the “Tax Cuts and Jobs Act” (the Act). The amount of this adjustment remains provisional under Staff Accounting Bulletin No. 118 (SAB 118) as of the date of this report.

We recognized income tax expense of \$1.8 million in the nine months ended September 30, 2018 as a result of a change in our valuation allowance on foreign tax credits associated with our euro debt refinancing.

We recognized an income tax benefit of \$3.3 million and \$4.4 million, respectively, in the three and nine months ended September 30, 2018 primarily related to certain foreign tax credits.

We recognized an income tax benefit of \$1.2 million in the nine months ended September 30, 2018 due to a decrease in reserves for uncertain tax positions of prior years.

On December 22, 2017, the Act was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial tax system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

On December 22, 2017, SAB 118 was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. The issuance of proposed regulations regarding GILTI and the one-time transition tax on the mandatory deemed repatriation of foreign earnings as well as the IRS notice addressing IRC section 162(m) has resulted in refinements to the provisional amounts initially recorded for the valuation allowance on certain foreign tax credits in 2017, certain covered employee compensation associated with the amendments to IRC section 162(m), the one-time transition tax on the mandatory deemed repatriation of foreign earnings and the estimated tax expense associated with the GILTI taxable inclusion. As a result, we recorded an adjustment to the valuation allowance on certain foreign tax credits and an adjustment to the deferred tax asset associated with certain covered employee compensation. Additional work is still necessary for a more detailed analysis of all provisional amounts associated with the Act including the remeasurement of certain deferred tax assets and liabilities, the one-time transition tax on the mandatory deemed repatriation of foreign earnings, the valuation allowance on certain foreign tax credits, and the non-deductibility of certain covered employee compensation associated with the amendments to IRC section 162(m). The transition tax on the mandatory deemed repatriation of foreign earnings will be finalized in the fourth quarter 2018 when the tax return is filed, and any subsequent adjustment to all other provisional amounts will be recorded to tax expense in the fourth quarter 2018 when the analysis is complete. All adjustments related to the Act remain provisional as of the date of this report.

Our income tax expense and effective tax rate in future periods may be impacted by many factors, including our geographic mix of income and changes in tax laws.

We recognized an income tax benefit of \$11.1 million and \$6.7 million for the three and nine months ended October 1, 2017, respectively, representing effective tax rates of 109.3% and (12.0)%, respectively. The effective tax rates were impacted by the following significant factors:

We recognized an income tax benefit of \$2.5 million and \$8.4 million in the three and nine months ended October 1, 2017, respectively, as a result of the implementation of a foreign tax credit planning strategy.

Foreign tax rate differences reduced our income tax expense by approximately \$1.4 million and \$8.4 million in the three and nine months ended October 1, 2017, respectively. The statutory tax rates associated with our foreign earnings generally are lower than the 2017 statutory U.S. tax rate of 35%. This had the greatest impact on our income before taxes that is generated in Germany, Canada, and the Netherlands, which have statutory tax rates of approximately 28%, 26%, and 25%, respectively.

We also recognized an income tax benefit of \$6.4 million and \$11.7 million in the three and nine months ended October 1, 2017, respectively, related to non-taxable currency translation gains.

All other items impacting the effective tax rate represented a net expense of \$2.6 million and \$2.3 million in the three and nine months ended October 1, 2017, respectively.

Note 13: Pension and Other Postretirement Obligations

The following table provides the components of net periodic benefit costs for our pension and other postretirement benefit plans:

- 23-

Three Months Ended	Pension Obligations		Other Postretirement Obligations	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Service cost	\$1,717	\$ 1,206	\$ 14	\$ 14
Interest cost	2,011	1,822	257	344
Expected return on plan assets	(4,660)	(2,487)	—	—
Amortization of prior service credit	(37)	(10)	—	—
Actuarial losses	1,073	633	—	23
Net periodic cost	\$104	\$ 1,164	\$ 271	\$ 381

Nine Months Ended				
Service cost	\$3,792	\$ 3,549	\$ 40	\$ 41
Interest cost	5,792	5,391	781	1,000
Expected return on plan assets	(9,688)	(7,415)	—	—
Amortization of prior service credit	(59)	(30)	—	—
Actuarial losses	2,350	1,866	—	68
Net periodic cost	\$2,187	\$ 3,361	\$ 821	\$ 1,109

Note 14: Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

The following table summarizes total comprehensive income:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands)			
Net income	\$85,858	\$945	\$117,220	\$62,417
Foreign currency translation gain (loss), net of \$0.5 million, \$1.1 million, \$0.7 million, and \$1.5 million tax, respectively	(17,904)	(19,535)	10,943	(46,478)
Adjustments to pension and postretirement liability, net of \$0.4 million, \$0.2 million, \$0.9 million, and \$0.7 million tax, respectively	637	397	1,409	1,171
Total comprehensive income (loss)	68,591	(18,193)	129,572	17,110
Less: Comprehensive loss attributable to noncontrolling interest	(29)	(66)	(155)	(306)
Comprehensive income (loss) attributable to Belden	\$68,620	\$(18,127)	\$129,727	\$17,416

The accumulated balances related to each component of other comprehensive income (loss), net of tax, are as follows:

	Foreign Currency Translation Component	Pension and Other Postretirement Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(In thousands)		
Balance at December 31, 2017	\$(69,691)	\$ (28,335)	\$ (98,026)
	10,950	—	10,950

Edgar Filing: BELDEN INC. - Form 10-Q

Other comprehensive income attributable to Belden before reclassifications

Amounts reclassified from accumulated other comprehensive income	—	1,409	1,409
Net current period other comprehensive gain attributable to Belden	10,950	1,409	12,359
Balance at September 30, 2018	\$(58,741)	\$ (26,926)	\$ (85,667)

- 24-

The following table summarizes the effects of reclassifications from accumulated other comprehensive income (loss) for the nine months ended September 30, 2018:

	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Operations and Comprehensive Income
	(In thousands)	
Amortization of pension and other postretirement benefit plan items:		
Actuarial losses	\$ 2,350	(1)
Prior service credit	(59)) (1)
Total before tax	2,291	
Tax benefit	(882))
Total net of tax	\$ 1,409	

(1) The amortization of these accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit costs (see Note 13).

Note 15: Preferred Stock

In 2016, we issued 5.2 million depositary shares, each of which represents 1/100th interest in a share of 6.75% Series B Mandatory Convertible Preferred Stock (the Preferred Stock), for an offering price of \$100 per depositary share. Holders of the Preferred Stock may elect to convert their shares into common stock at any time prior to the mandatory conversion date. Unless earlier converted, each share of Preferred Stock will automatically convert into common stock on or around July 15, 2019 into between 120.46 and 132.50 shares of Belden common stock, subject to customary anti-dilution adjustments. This represents a range of 6.2 million to 6.9 million shares of Belden common stock to be issued upon conversion. The number of shares of Belden common stock issuable upon the mandatory conversion of the Preferred Stock will be determined based upon the volume-weighted average price of Belden's common stock over the 20 day trading period beginning on, and including, the 22nd scheduled trading day prior to July 15, 2019. The net proceeds from this offering were approximately \$501 million. With respect to dividend and liquidation rights, the Preferred Stock ranks senior to our common stock and junior to all of our existing and future indebtedness. During the three and nine months ended September 30, 2018 and October 1, 2017, dividends on the Preferred Stock were \$8.7 million and \$26.2 million, respectively.

Note 16: Share Repurchases

On May 25, 2017, our Board of Directors authorized a share repurchase program, which allows us to purchase up to \$200.0 million of our common stock through open market repurchases, negotiated transactions, or other means, in accordance with applicable securities laws and other restrictions. This program is funded with cash on hand and cash flows from operating activities. The program does not have an expiration date and may be suspended at any time at the discretion of the Company. During the three months ended September 30, 2018, we repurchased 0.3 million shares of our common stock under the share repurchase program for an aggregate cost of \$25.0 million and an average price per share of \$72.62. During the nine months ended September 30, 2018, we repurchased 1.8 million shares of our common stock under the share repurchase program for an aggregate cost of \$125.0 million and an average price per share of \$70.13.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Belden Inc. (the Company, us, we, or our) is a signal transmission solutions company built around two global business platforms – Enterprise Solutions and Industrial Solutions. Our comprehensive portfolio of signal transmission solutions provides industry leading secure and reliable transmission of data, sound, and video for mission critical applications. We strive for operational excellence through the execution of our Belden Business System, which includes three areas of focus: Lean enterprise initiatives, our Market Delivery System, and our Talent Management System. Through operational excellence we generate free cash flow on an annual basis. We utilize the cash flow generated by our business to fuel our continued transformation and generate shareholder value. We believe our business system, balance across markets and geographies, systematic go-to-market approach, extensive portfolio of innovative solutions, commitment to Lean principles, and improving margins present a unique value proposition for shareholders. We use a set of tools and processes that are designed to continuously improve business performance in the critical areas of quality, delivery, cost, and innovation. We consider revenue growth, Adjusted EBITDA margin, free cash flows, and return on invested capital to be our key operating performance indicators. We also seek to acquire businesses that we believe can help us achieve these objectives.

Trends and Events

The following trends and events during 2018 have had varying effects on our financial condition, results of operations, and cash flows.

Foreign currency

Our exposure to currency rate fluctuations primarily relates to exchange rate movements between the U.S. dollar and the Euro, Canadian dollar, Hong Kong dollar, Chinese yuan, Japanese yen, Mexican peso, Australian dollar, British pound, and Brazilian real. Generally, as the U.S. dollar strengthens against these foreign currencies, our revenues and earnings are negatively impacted as our foreign denominated revenues and earnings are translated into U.S. dollars at a lower rate. Conversely, as the U.S. dollar weakens against foreign currencies, our revenues and earnings are positively impacted. During the three and nine months ended September 30, 2018, approximately 48% and 49% of our consolidated revenues were to customers outside of the U.S, respectively.

In addition to the translation impact described above, currency rate fluctuations have an economic impact on our financial results. As the U.S. dollar strengthens or weakens against foreign currencies, it results in a relative price increase or decrease for certain of our products that are priced in U.S. dollars in a foreign location.

Commodity prices

Our operating results can be affected by changes in prices of commodities, primarily copper and compounds, which are components in some of the products we sell. Generally, as the costs of inventory purchases increase due to higher commodity prices, we raise selling prices to customers to cover the increase in costs, resulting in higher sales revenue but a lower gross profit percentage. Conversely, a decrease in commodity prices would result in lower sales revenue but a higher gross profit percentage. Selling prices of our products are affected by many factors, including end market demand, capacity utilization, overall economic conditions, and commodity prices. Importantly, however, there is no exact measure of the effect of changing commodity prices, as there are thousands of transactions in any given quarter, each of which has various factors involved in the individual pricing decisions. Therefore, all references to the effect of copper prices or other commodity prices are estimates.

Channel Inventory

Our operating results also can be affected by the levels of Belden products purchased and held as inventory by our channel partners and customers. Our channel partners and customers purchase and hold the products they bought from us in their inventory in order to meet the service and on-time delivery requirements of their customers. Generally, as our channel partners and customers change the level of products they buy from us and hold in their inventory, it impacts our revenues. Comparisons of our results between periods can be impacted by changes in the levels of channel inventory. We use information provided to us by our channel partners and make certain assumptions based on our sales to them to determine the amount of products they bought from us and hold in their inventory. As such, all references to the effect of channel inventory changes are estimates.

Market Growth and Market Share

The markets in which we operate can generally be characterized as highly competitive and highly fragmented, with many players. We monitor available data regarding market growth, including independent market research reports, publicly available indices, and the financial results of our direct and indirect peer companies, in order to estimate the extent to which our served markets grew or contracted during a particular period. We expect that our unit sales volume will increase or decrease consistently with the market growth rate. Our strategic goal is to utilize our Market Delivery System to target faster growing geographies, applications, and trends within our end markets, in order to achieve growth that is higher than the general market growth rate. To the extent that we exceed the market growth rates, we consider it to be the result of capturing market share.

Reportable Segments

Effective January 1, 2018, we changed our organizational structure and, as a result, now are reporting two segments. The segments formerly known as Broadcast Solutions and Enterprise Solutions now are presented as the Enterprise Solutions segment, and the segments formerly known as Industrial Solutions and Network Solutions now are presented as the Industrial Solutions segment. The reorganization allows us to further accelerate progress in key strategic areas and the segment consolidation properly aligns our external reporting with the way the businesses are now managed. We have recast the prior period segment information to conform to the change in the composition of these reportable segments.

Acquisitions

We completed the acquisition of Net-Tech Technology, Inc. (NT2) and Snell Advanced Media (SAM) on April 25, 2018 and February 8, 2018, respectively. The results of both NT2 and SAM have been included in our Consolidated Financial Statements from the acquisition dates and are reported in the Enterprise Solutions segment. See Note 3.

Long-term Debt

In March 2018, we issued €350.0 million (\$431.3 million at issuance) aggregate principal amount of new senior subordinated notes due 2028 at an interest rate of 3.875%. During March and April 2018, we used the net proceeds of this offering to repurchase our outstanding \$200.0 million 5.25% senior subordinated notes due 2024 and our outstanding €200.0 million 5.5% senior subordinated notes due 2023. We paid approximately \$7.5 million of fees related to issuing the 2028 notes, and recognized a \$23.0 million loss on debt extinguishment during the nine months ended September 30, 2018 for premiums paid to the bond holders to retire the 2024 and 2023 notes and for the unamortized debt issuance costs that we wrote-off. See Note 10.

Gain from Patent Litigation

On July 5, 2011, our wholly-owned subsidiary, PPC Broadband, Inc. (PPC), filed an action for patent infringement against Corning Optical Communications RF LLC (Corning). The complaint alleged that Corning infringed two of PPC's patents. In July 2015, a jury found that Corning willfully infringed both patents. In November 2016, following a series of post-trial motions, the trial judge issued rulings for a total judgment in our favor of approximately \$61.3 million. In December 2016, Corning appealed the case to the U.S. Court of Appeals for the Federal Circuit. In March 2018, a panel of three judges of the United States Court of Appeals for the Federal Circuit issued a Rule 36 Affirmance of the District Court's final judgment that Corning, among other things, willfully infringed the PPC universal compression patents at issue in the case, and that PPC should be awarded approximately \$61.8 million, plus accrued interest. In April 2018, Corning filed a petition for re-hearing, which was denied in May 2018. On July 16, 2018, the District Court ruled that Corning shall pay the judgments. We received a pre-tax amount of approximately \$62.1 million from Corning on July 19, 2018. We recorded the \$62.1 million of cash received as a pre-tax gain from patent litigation during the three and nine months ended September 30, 2018. Prior to the third quarter of 2018, we had not recognized any amounts in our consolidated financial statements related to this matter. On September 27, 2018, Corning filed a petition for certiorari review by the U.S. Supreme Court of the District Court's decision to exercise its discretion to award PPC \$23.85 million in enhanced damages based on the totality of the evidence, including a number of factual findings regarding Corning's willful infringement and egregious conduct. For at least the same reasons why the Federal Circuit affirmed the District Court's decision to enhance damages, we believe that Corning's certiorari petition will not be granted, thus exhausting Corning's opportunities for further appellate relief.

Grass Valley and SAM Integration Program

During the first quarter of 2018, we began a restructuring program to integrate SAM with Grass Valley. The restructuring and integration activities are focused on achieving desired cost savings by consolidating existing and acquired facilities and other support functions. We recognized \$7.1 million and \$36.6 million of severance and other restructuring costs for this program during the three and nine months ended September 30, 2018, respectively. The costs were incurred by the Enterprise Solutions segment.

- 27 -

We expect to incur approximately \$12 million of additional severance and restructuring costs for this program, which will be incurred during the fourth quarter of 2018 and first quarter of 2019. We also expect the program to generate approximately \$44 million of savings on an annualized basis, which we began to realize in the third quarter of 2018.

Industrial Manufacturing Footprint Program

In 2016, we began a program to consolidate our manufacturing footprint. The manufacturing consolidation will be completed this year. We recognized \$4.3 million and \$15.8 million of severance and other restructuring costs for this program during the three and nine months ended September 30, 2018, respectively. The costs were incurred by the Enterprise Solutions and Industrial Solutions segments, as the manufacturing locations involved in the program serve both platforms. We expect the program to generate approximately \$13 million of savings on an annualized basis, which we began to realize in the third quarter of 2017.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows that are or would be considered material to investors.

Critical Accounting Policies

During the nine months ended September 30, 2018:

- We did not change any of our existing critical accounting policies from those listed in our 2017 Annual Report on Form 10-K other than updating our revenue recognition accounting policies for the adoption of ASU 2014-09;
- No existing accounting policies became critical accounting policies because of an increase in the materiality of associated transactions or changes in the circumstances to which associated judgments and estimates relate; and
- There were no significant changes in the manner in which critical accounting policies were applied or in which related judgments and estimates were developed.

Results of Operations

Consolidated Income before Taxes

	Three Months Ended			Nine Months Ended		
	September 30, 2018	October 1, 2017	% Change	September 30, 2018	October 1, 2017	% Change
	(In thousands, except percentages)					
Revenues	\$655,774	\$621,745	5.5 %	\$1,929,978	\$1,783,759	8.2 %
Gross profit	260,857	239,849	8.8 %	749,047	705,327	6.2 %
Selling, general and administrative expenses	(132,716)	(116,129)	14.3 %	(396,430)	(346,786)	14.3 %
Research and development	(33,471)	(35,442)	(5.6)%	(107,781)	(105,108)	2.5 %
Amortization of intangibles	(25,533)	(27,162)	(6.0)%	(74,990)	(77,944)	(3.8)%
Gain from patent litigation	62,141	—	100.0 %	62,141	—	100.0 %
Operating income	131,278	61,116	114.8 %	231,987	175,489	32.2 %
Interest expense, net	(14,472)	(19,385)	(25.3)%	(46,538)	(66,424)	(29.9)%
Non-operating pension benefit (cost)	1,356	(325)	317.2 %	824	(880)	(6.4)%
Loss on debt extinguishment	—	(51,594)	(100.0)%	(22,990)	(52,441)	(56.2)%
Income (loss) before taxes	118,162	(10,188)	(1,259.8)%	163,283	55,744	192.9 %

Revenues increased in the three and nine months ended September 30, 2018 from the comparable periods of 2017 due to the following factors:

• Acquisitions contributed an estimated \$27.2 million and \$93.0 million in the three and nine months ended September 30, 2018, respectively.

• Higher sales volume and increases in pricing resulted in an increase of \$20.2 million and \$34.7 million in the three and nine months ended September 30, 2018, respectively.

Copper prices had a \$0.2 million unfavorable impact on revenues in the three months ended September 30, 2018, and a \$17.0 million favorable impact on revenues in the nine months ended September 30, 2018.

Currency translation had a \$5.3 million unfavorable impact on revenues in the three months ended September 30, 2018, and a \$22.3 million favorable impact on revenues in the nine months ended September 30, 2018.

The divestiture of our MCS business resulted in a \$7.8 million and \$20.8 million decrease in revenues in the three and nine months ended September 30, 2018, respectively.

Gross profit increased in the three and nine months ended September 30, 2018 from the comparable periods of 2017 due to the increases in revenues discussed above. In the three months ended September 30, 2018, decreases in severance, restructuring, and acquisition integration costs; purchase accounting effects of acquisitions; and accelerated depreciation of \$7.6 million, \$2.3 million, and \$0.3 million, respectively, further contributed to the increase in gross profit, partially offset by a \$0.6 million increase in the amortization of software development intangible assets as compared to the year ago period. For the nine months ended September 30, 2018, decreases in severance, restructuring, and acquisition integration costs; purchase accounting effects of acquisitions; and accelerated depreciation of \$5.0 million, \$2.3 million, and \$0.8 million, respectively, further contributed to the increase in gross profit, partially offset by a \$1.3 million increase in the amortization of software development intangible assets as compared to the year ago period.

Selling, general and administrative expenses increased \$16.6 million and \$49.6 million, respectively, in the three and nine months ended September 30, 2018 from the comparable periods of 2017. For the three months ended September 30, 2018, acquisitions; costs related to patent litigation; and increases in severance, restructuring, and acquisition integration costs; contributed an estimated \$5.9 million, \$2.6 million, and \$2.1 million, respectively, to the increase in selling, general and administrative expenses, partially offset by the impact of capacity constraints, currency translation, and the MCS divestiture in the fourth quarter of 2017, which contributed to a decline of approximately \$3.2 million, \$0.9 million and \$0.8 million, respectively, over the year ago period. For the nine months ended September 30, 2018, increases in acquisitions; severance, restructuring, and acquisition integration costs; currency translation; and costs related to patent litigation contributed an estimated \$29.2 million, \$23.9 million, \$5.0 million, and \$2.6 million, respectively, to the increase in selling, general and administrative expenses, partially offset by improved productivity and the MCS divestiture in the fourth quarter of 2017, which contributed to a decline of approximately \$16.2 million and \$2.9 million, respectively, over the year ago period.

Research and development expenses decreased \$2.0 million in the three months ended September 30, 2018 from the comparable period of 2017, and increased \$2.7 million in the nine months ended September 30, 2018 from the comparable period of 2017. For the three months ended September 30, 2018, acquisitions and increases in severance, restructuring, and acquisition integration costs contributed an estimated \$1.7 million and \$0.4 million, respectively, to the increase in research and development expenses year-over-year. These increases were more than offset by \$3.3 million, \$0.6 million, and \$0.2 million from improved productivity, the MCS divestiture in the fourth quarter of 2017, and currency translation, respectively. For the nine months ended September 30, 2018, acquisitions; increases in severance, restructuring, and acquisition integration costs; and currency translation contributed an estimated \$10.5 million, \$5.2 million, and \$1.6 million, respectively, to the increase in research and development expenses year-over-year. These increases were partially offset by \$12.8 million and \$1.7 million from improved productivity and the MCS divestiture in the fourth quarter of 2017, respectively.

Amortization of intangibles decreased \$1.6 million and \$3.0 million, respectively, in the three and nine months ended September 30, 2018 from the comparable periods of 2017. The decrease is due to certain intangible assets becoming fully amortized, partially offset by the impact of acquisitions, which contributed to a total increase of \$2.6 million and \$10.8 million, respectively, in the three and nine months ended September 30, 2018 as compared to the year ago period.

Gain from patent litigation increased \$62.1 million in the three and nine months ended September 30, 2018 from the comparable periods of 2017. In 2011, our wholly-owned subsidiary, PPC, filed an action for patent infringement

against Corning alleging they willfully infringed upon two of their patents, and after years of post-trial motions and appeals, the District Court ruled that Corning shall pay judgments of \$62.1 million, which we received in July 2018 and recorded as a gain from patent litigation for the three and nine months ended September 30, 2018. See Note 1. Operating income increased \$70.2 million and \$56.5 million, respectively, in the three and nine months ended September 30, 2018 from the comparable periods of 2017 primarily due to the gain from patent litigation and increases in gross profit discussed above, partially offset by the changes in operating expenses discussed above. Net interest expense decreased \$4.9 million, or 25.3%, and \$19.9 million, or 29.9%, in the three and nine months ended September 30, 2018, respectively, from the comparable periods of 2017 as a result of our debt transactions during 2017 and 2018. In July 2017, we issued €450.0 million aggregate principal amount of new senior subordinated notes due 2027 at an interest rate of 3.375%, and used the net proceeds of this offering and cash on hand to repurchase all of our outstanding \$700.0 million 5.5% senior

subordinated notes due 2022. In September 2017, we issued €300.0 million aggregate principal amount of new senior subordinated notes due 2025 at an interest rate of 2.875%, and used the net proceeds of this offering to repurchase €300.0 million of our outstanding €500.0 million 5.5% senior subordinated notes due 2023. In March 2018, we issued €350.0 million aggregate principal amount of new senior subordinated notes due 2028 at an interest rate of 3.875%, and used the net proceeds of this offering and cash on hand to repurchase all of our outstanding €200.0 million 5.5% senior subordinated notes due 2023 as well as all of our outstanding \$200.0 million 5.25% senior subordinated notes due 2024. See Note 10.

The loss on debt extinguishment recognized in 2018 represents the premium paid to the bond holders to retire the 2023 and 2024 notes as well as the unamortized debt issuance costs that were written-off. The loss on debt extinguishment recognized in 2017 represents the premium paid to the bond holders to retire the 2022 and a portion of the 2023 notes as well as the unamortized debt issuance costs that were written-off and the unamortized debt issuance costs related to creditors no longer participating in the Amended and Restated Credit Agreement (the Revolver), which we amended in May 2017. See Note 10.

For the three months ended September 30, 2018, we recognized \$118.2 million of income before taxes, as compared to a \$10.2 million loss before taxes in the year ago period. Income before taxes increased \$107.5 million in the nine months ended September 30, 2018 from the comparable period of 2017. The increase in income before taxes is attributable to the increase in operating income, decrease in interest expense, and decrease in the loss on debt extinguishment discussed above.

Income Taxes

	Three Months Ended			Nine Months Ended		
	September 30, 2018	October 1, 2017	% Change	September 30, 2018	October 1, 2017	% Change
	(In thousands, except percentages)					
Income (loss) before taxes	\$118,162	\$(10,188)	1,259.8%	\$163,283	\$55,744	192.9%
Income tax expense (benefit)	32,304	(11,133)	390.2%	46,063	(6,673)	790.3%
Effective tax rate	27.3%	109.3%		28.2%	(12.0)%	

For the three and nine months ended September 30, 2018, we recognized income tax expense of \$32.3 million and \$46.1 million, respectively, representing an effective tax rate of 27.3% and 28.2%, respectively. The effective tax rate was impacted by the following significant factors:

- We recognized income tax expense of \$3.8 million and \$4.3 million, respectively, in the three and nine months ended September 30, 2018 as a result of changes in our valuation allowance for the “Tax Cuts and Jobs Act” (the Act). The amount of this adjustment remains provisional under Staff Accounting Bulletin No. 118 (SAB 118) as of the date of this report.

- We recognized income tax expense of \$1.8 million in the nine months ended September 30, 2018 as a result of a change in our valuation allowance on foreign tax credits associated with our euro debt refinancing.

- We recognized an income tax benefit of \$3.3 million and \$4.4 million, respectively, in the three and nine months ended September 30, 2018 primarily related to certain foreign tax credits.

- We recognized an income tax benefit of \$1.2 million in the nine months ended September 30, 2018 due to a decrease in reserves for uncertain tax positions of prior years.

On December 22, 2017, the Act was signed into law, making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial tax system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

On December 22, 2017, SAB 118 was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. The issuance of proposed regulations regarding GILTI and the one-time transition tax on the mandatory deemed repatriation of foreign earnings as well as the IRS notice addressing IRC section 162(m) has resulted in refinements to the provisional amounts initially recorded for the valuation allowance on certain foreign tax credits in 2017, certain covered employee compensation associated with the amendments to IRC section 162(m), the one-time transition tax on the mandatory deemed repatriation of foreign earnings and the estimated tax expense associated with the GILTI taxable inclusion. As a result, we recorded an adjustment to the valuation allowance on certain foreign tax credits and an adjustment to the deferred tax asset associated with certain covered employee compensation. Additional work is still necessary for a more detailed analysis of

- 30-

all provisional amounts associated with the Act including the remeasurement of certain deferred tax assets and liabilities, the one-time transition tax on the mandatory deemed repatriation of foreign earnings, the valuation allowance on certain foreign tax credits, and the non-deductibility of certain covered employee compensation associated with the amendments to IRC section 162(m). The transition tax on the mandatory deemed repatriation of foreign earnings will be finalized in the fourth quarter 2018 when the tax return is filed, and any subsequent adjustment to all other provisional amounts will be recorded to tax expense in the fourth quarter 2018 when the analysis is complete. All adjustments related to the Act remain provisional as of the date of this report.

We recognized an income tax benefit of \$11.1 million and \$6.7 million for the three and nine months ended October 1, 2017, respectively, representing effective tax rates of 109.3% and (12.0)%, respectively. The effective tax rates were impacted by the following significant factors:

We recognized an income tax benefit of \$2.5 million and \$8.4 million in the three and nine months ended October 1, 2017, respectively, as a result of the implementation of a foreign tax credit planning strategy.

Foreign tax rate differences reduced our income tax expense by approximately \$1.4 million and \$8.4 million in the three and nine months ended October 1, 2017, respectively. The statutory tax rates associated with our foreign earnings generally are lower than the 2017 statutory U.S. tax rate of 35%. This had the greatest impact on our income before taxes that is generated in Germany, Canada, and the Netherlands, which have statutory tax rates of approximately 28%, 26%, and 25%, respectively.

We also recognized an income tax benefit of \$6.4 million and \$11.7 million in the three and nine months ended October 1, 2017, respectively, related to non-taxable currency translation gains.

All other items impacting the effective tax rate represented a net expense of \$2.6 million and \$2.3 million in the three and nine months ended October 1, 2017, respectively.

Our income tax expense and effective tax rate in future periods may be impacted by many factors, including our geographic mix of income and changes in tax laws.

Consolidated Adjusted Revenues and Adjusted EBITDA

	Three Months Ended			Nine Months Ended		
	September 30, 2018	October 1, 2017	% Change	September 30, 2018	October 1, 2017	% Change
	(In thousands, except percentages)					
Adjusted Revenues	\$659,003	\$621,745	6.0 %	\$1,937,867	\$1,783,759	8.6 %
Adjusted EBITDA	126,689	119,237	6.2 %	352,552	324,075	8.8 %
as a percent of adjusted revenues	19.2 %	19.2 %		18.2 %	18.2 %	

Adjusted Revenues increased in the three and nine months ended September 30, 2018 from the comparable periods of 2017 due to the following factors:

Acquisitions contributed an estimated \$30.4 million and \$100.9 million in the three and nine months ended September 30, 2018, respectively.

Higher sales volume and increases in pricing resulted in an increase of \$20.2 million and \$34.7 million in the three and nine months ended September 30, 2018, respectively.

Copper prices had a \$0.2 million unfavorable impact on revenues in the three months ended September 30, 2018, and a \$17.0 million favorable impact on revenues in the nine months ended September 30, 2018.

Currency translation had a \$5.3 million unfavorable impact on revenues in the three months ended September 30, 2018, and a \$22.3 million favorable impact on revenues in the nine months ended September 30, 2018.

The divestiture of our MCS business resulted in a \$7.8 million and \$20.8 million decrease in revenues in the three and nine months ended September 30, 2018, respectively.

Adjusted EBITDA increased in the three and nine months ended September 30, 2018 from the comparable periods of 2017 primarily due to the increases in revenues discussed above.

Use of Non-GAAP Financial Information

Adjusted Revenues, Adjusted EBITDA, Adjusted EBITDA margin, and free cash flow are non-GAAP financial measures. In addition to reporting financial results in accordance with accounting principles generally accepted in the United States, we provide

- 31-

non-GAAP operating results adjusted for certain items, including: asset impairments; accelerated depreciation expense due to plant consolidation activities; purchase accounting effects related to acquisitions, such as the adjustment of acquired inventory and deferred revenue to fair value, and transaction costs; severance, restructuring, and acquisition integration costs; gains (losses) recognized on the disposal of businesses and tangible assets; amortization of intangible assets; gains (losses) on debt extinguishment; certain revenues and gains (losses) from patent settlements; discontinued operations; and other costs. We adjust for the items listed above in all periods presented, unless the impact is clearly immaterial to our financial statements. When we calculate the tax effect of the adjustments, we include all current and deferred income tax expense commensurate with the adjusted measure of pre-tax profitability.

We utilize the adjusted results to review our ongoing operations without the effect of these adjustments and for comparison to budgeted operating results. We believe the adjusted results are useful to investors because they help them compare our results to previous periods and provide important insights into underlying trends in the business and how management oversees our business operations on a day-to-day basis. As an example, we adjust for the purchase accounting effect of recording deferred revenue at fair value in order to reflect the revenues that would have otherwise been recorded by acquired businesses had they remained as independent entities. We believe this presentation is useful in evaluating the underlying performance of acquired companies. Similarly, we adjust for other acquisition-related expenses, such as amortization of intangibles and other impacts of fair value adjustments because they generally are not related to the acquired business' core business performance. As an additional example, we exclude the costs of restructuring programs, which can occur from time to time for our current businesses and/or recently acquired businesses. We exclude the costs in calculating adjusted results to allow us and investors to evaluate the performance of the business based upon its expected ongoing operating structure. We believe the adjusted measures, accompanied by the disclosure of the costs of these programs, provides valuable insight.

Adjusted results should be considered only in conjunction with results reported according to accounting principles generally accepted in the United States. The following tables reconcile our GAAP results to our non-GAAP financial measures:

	Three Months Ended		Nine Months Ended	
	September 30, 2018	October 1, 2017	September 30, 2018	October 1, 2017
	(In thousands, except percentages)			
GAAP revenues	\$655,774	\$621,745	\$1,929,978	\$1,783,759
Deferred revenue adjustments (1)	3,229	—	7,889	—
Adjusted revenues	\$659,003	\$621,745	\$1,937,867	\$1,783,759
GAAP net income attributable to Belden	\$85,881	\$1,027	\$117,368	\$62,691
Loss on debt extinguishment	—	51,594	22,990	52,441
Amortization of intangible assets	25,533	27,162	74,990	77,944
Interest expense, net	14,472	19,385	46,538	66,424
Severance, restructuring, and acquisition integration costs (2)	11,688	16,679	57,010	32,839
Depreciation expense	11,671	11,683	35,562	34,594
Income tax expense (benefit)	32,304	(11,133)	46,063	(6,673)
Deferred revenue adjustments (1)	3,229	—	7,889	—
Purchase accounting effects related to acquisitions (3)	821	2,922	2,359	4,089
Amortization of software development intangible assets	620	—	1,344	—
Loss on sale of assets	—	—	94	—
Gain from patent litigation	(62,141)	—	(62,141)	—
Costs related to patent litigation	2,634	—	2,634	—
Noncontrolling interest	(23)	(82)	(148)	(274)

Edgar Filing: BELDEN INC. - Form 10-Q

Adjusted EBITDA	\$126,689	\$119,237	\$352,552	\$324,075	
GAAP net income margin	13.1	% 0.2	% 6.1	% 3.5	%
Adjusted EBITDA margin	19.2	% 19.2	% 18.2	% 18.2	%

(1) For the three and nine months ended September 30, 2018, our segment results include revenues that would have been recorded by acquired businesses had they remained as independent entities. Our consolidated results do not include these revenues due to the purchase accounting effect of recording deferred revenue at fair value.

- 32-

(2) See Note 9, Severance, Restructuring, and Acquisition Integration Activities, for details.

(3) For the three and nine months ended September 30, 2018, we recognized cost of sales for the adjustment of acquired inventory to fair value related to the SAM and NT2 acquisitions.

Segment Results of Operations

For additional information regarding our segment measures, see Note 5 to the Condensed Consolidated Financial Statements.

Enterprise Solutions

	Three Months Ended			Nine Months Ended		
	September 30, 2018	October 1, 2017	% Change	September 30, 2018	October 1, 2017	% Change
(In thousands, except percentages)						
Segment Revenues	\$392,080	\$360,842	8.7 %	\$1,142,765	\$1,023,924	11.6 %
Segment EBITDA	72,210	62,109	16.3 %	199,943	168,073	19.0 %
as a percent of segment revenues	18.4 %	17.2 %		17.5 %	16.4 %	

Enterprise Solutions revenues increased in both the three and nine months ended September 30, 2018 from the comparable periods of 2017. For the three months ended September 30, 2018, acquisitions contributed an estimated \$30.4 million and volume growth and pricing increases contributed \$4.2 million to the increase in revenues, partially offset by a \$2.8 million and \$0.5 million unfavorable impact from currency translation and copper prices, respectively. For the nine months ended September 30, 2018, acquisitions, favorable currency translation, higher copper prices, and volume growth contributed an estimated \$100.9 million, \$9.3 million, \$8.1 million, and \$0.6 million, respectively, to the increase in revenues.

Enterprise Solutions EBITDA increased \$10.1 million and \$31.9 million, respectively, in the three and nine months ended September 30, 2018 from the comparable periods of 2017 as a result of the revenue growth discussed above and successful restructuring actions. Accordingly, EBITDA margins expanded 120 and 110 basis points, respectively, over the year ago period.

Industrial Solutions

	Three Months Ended			Nine Months Ended		
	September 30, 2018	October 1, 2017	% Change	September 30, 2018	October 1, 2017	% Change
(In thousands, except percentages)						
Segment Revenues	\$266,923	\$260,903	2.3 %	\$795,102	\$759,835	4.6 %
Segment EBITDA	53,750	55,747	(3.6)%	153,401	153,675	(0.2)%
as a percent of segment revenues	20.1 %	21.4 %		19.3 %	20.2 %	

Industrial Solutions revenues increased in both the three and nine months ended September 30, 2018 from the comparable periods of 2017. For the three months ended September 30, 2018, volume growth and pricing increases contributed \$16.0 million and higher copper prices contributed \$0.3 million to the increase in revenues, partially offset by \$7.8 million from the MCS divestiture in the fourth quarter of 2017 and unfavorable currency translation of \$2.5 million. For the nine months ended September 30, 2018, volume growth, favorable currency translation, and higher copper prices contributed \$34.1 million, \$13.1 million, and \$8.9 million, respectively, to the increase in revenues, partially offset by \$20.8 million from the MCS divestiture in the fourth quarter of 2017.

Industrial Solutions EBITDA decreased \$2.0 million and \$0.3 million, respectively, in the three and nine months ended September 30, 2018 from the comparable periods of 2017. The revenue growth discussed above was offset by unfavorable product mix and temporary inefficiencies related to extended lead times throughout the supply chain

experienced in the three and nine months ended September 30, 2018.

Liquidity and Capital Resources

Significant factors affecting our cash liquidity include (1) cash from operating activities, (2) disposals of businesses and tangible assets, (3) cash used for acquisitions, restructuring actions, capital expenditures, share repurchases, dividends, and senior subordinated note repurchases, (4) our available credit facilities and other borrowing arrangements, and (5) cash proceeds from

- 33-

equity offerings. We expect our operating activities to generate cash in 2018 and believe our sources of liquidity are sufficient to fund current working capital requirements, capital expenditures, contributions to our retirement plans, share repurchases, senior subordinated note repurchases, quarterly dividend payments, and our short-term operating strategies. However, we may require external financing in the event we complete a significant acquisition. Our ability to continue to fund our future needs from business operations could be affected by many factors, including, but not limited to: economic conditions worldwide, customer demand, competitive market forces, customer acceptance of our product mix, and commodities pricing.

The following table is derived from our Condensed Consolidated Cash Flow Statements:

	Nine Months Ended September 30, 2018		October 1, 2017
	(In thousands)		
Net cash provided by (used for):			
Operating activities	\$ 100,859		\$ 103,615
Investing activities	(106,304)		(200,311)
Financing activities	(220,932)		(305,242)
Effects of currency exchange rate changes on cash and cash equivalents	(5,704)		15,185
Decrease in cash and cash equivalents	(232,081)		(386,753)
Cash and cash equivalents, beginning of period	561,108		848,116
Cash and cash equivalents, end of period	\$ 329,027		\$ 461,363

Net cash provided by operating activities totaled \$100.9 million in the nine months ended September 30, 2018, compared to \$103.6 million for the comparable period of 2017, a decrease of \$2.7 million. The decrease in operating cash flow as compared to prior year is primarily due to an unfavorable change in accounts payable partially offset by an increase in net income and a favorable change in inventory. Accounts payable was a use of cash of \$81.3 million in the nine months ended September 30, 2018 compared to a source of cash of \$30.3 million in the prior year period. The accounts payable use of cash in the nine months ended September 30, 2018 is primarily attributable to the growth in inventory levels in the latter part of 2017 as discussed below. Inventory was a use of cash of \$16.6 million in the nine months ended September 30, 2018 compared to \$50.2 million in the prior year period. The increase in inventory levels throughout 2017 was due in part to the build in safety stock inventory to support the closure of an operating facility.

Net cash used for investing activities totaled \$106.3 million for the nine months ended September 30, 2018, compared to \$200.3 million for the comparable period of 2017. Investing activities for the nine months ended September 30, 2018 included payments, net of cash acquired, for the acquisitions of SAM and NT2 of \$83.7 million, capital expenditures of \$63.5 million, net proceeds from the sale of an operating facility of \$1.5 million, and a payment related to our 2015 acquisition of Tripwire that had previously been deferred of \$1.0 million; net of cash received for the sale of the MCS business and Hirschmann JV which closed on December 31, 2017 of \$40.2 million. Investing

activities for the nine months ended October 1, 2017 included payments, net of cash acquired, for the acquisition of Thinklogical of \$165.8 million; capital expenditures of \$33.4 million; and a \$1.0 million payment related to our 2015 acquisition of Tripwire that had previously been deferred. The increase in capital expenditures year-over-year is due in part to the investments we are making in India as well as research and development. For the nine months ended September 30, 2018, capital expenditures included an incremental \$13.8 million of software development costs related to projects that are creating new technologies that will drive future growth.

Net cash used for financing activities for the nine months ended September 30, 2018 totaled \$220.9 million, compared to \$305.2 million for the comparable period of 2017. Financing activities for the nine months ended September 30, 2018 included payments under borrowing arrangements of \$484.8 million, payments under our share repurchase program of \$125.0 million, cash dividend payments of \$32.4 million, debt issuance costs of \$7.6 million, net payments related to share based compensation activities of \$2.0 million, payments for the redemption of our stockholders' rights agreement of \$0.4 million, and cash proceeds from the issuance of the €350.0 million 3.875% Notes due 2028 of \$431.3 million. Financing activities for the nine months ended October 1, 2017 included payments under borrowing arrangements of \$1,105.9 million, cash dividend payments of \$32.5 million, debt issuance costs of \$16.6 million, payments under our share repurchase program of \$11.5 million, net payments related to share based compensation activities of \$5.4 million, and cash proceeds of \$866.7 million from the issuance of the €450.0 million 3.375% Notes due 2027 and the €300.0 million 2.875% Notes due 2025.

Our cash and cash equivalents balance was \$329.0 million as of September 30, 2018. Of this amount, \$177.0 million was held outside of the U.S. in our foreign operations. Substantially all of the foreign cash and cash equivalents are readily convertible into U.S. dollars or other foreign currencies. We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested, and accordingly, no provision for any withholding taxes has been recorded. Upon distribution of those earnings in the form of dividends or otherwise, we may be subject to withholding taxes payable to the respective foreign countries.

Our outstanding debt obligations as of September 30, 2018 consisted of \$1,527.0 million of senior subordinated notes. Additional discussion regarding our various borrowing arrangements is included in Note 10 to the Condensed Consolidated Financial Statements. As of September 30, 2018, we had \$359.8 million in available borrowing capacity under our Revolver.

Forward-Looking Statements

Statements in this report other than historical facts are “forward-looking statements” made in reliance upon the safe harbor of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements regarding future financial performance (including revenues, expenses, earnings, margins, cash flows, dividends, capital expenditures and financial condition), plans and objectives, and related assumptions. These forward-looking statements reflect management’s current beliefs and expectations and are not guarantees of future performance. Actual results may differ materially from those suggested by any forward-looking statements based on a number of factors. These factors include, among others, those set forth in Part II, Item 1A and in other documents that we file with the SEC.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

Item 3: Quantitative and Qualitative Disclosures about Market Risks

The following table provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal amounts by expected maturity dates and fair values as of September 30, 2018.

	Principal Amount by Expected Maturity		
	2018	Thereafter	Total
	Fair Value		
	(In thousands, except interest rates)		
€350.0 million fixed-rate senior subordinated notes due 2028	\$ 411,110	\$ 411,110	\$ 408,701
Average interest rate	3.875	%	
€450.0 million fixed-rate senior subordinated notes due 2027	\$ 528,570	\$ 528,570	\$ 519,981
Average interest rate	3.375	%	
€200.0 million fixed-rate senior subordinated notes due 2026	\$ 234,920	\$ 234,920	\$ 249,015
Average interest rate	4.125	%	
€300.0 million fixed-rate senior subordinated notes due 2025	\$ 352,380	\$ 352,380	\$ 349,209
Average interest rate	2.875	%	
Total		\$ 1,526,980	\$ 1,526,906

Item 7A of our 2017 Annual Report on Form 10-K provides information as to the practices and instruments that we use to manage market risks. There were no material changes in our exposure to market risks since December 31, 2017.

Item 4: Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, for the three and nine month periods ended September 30, 2018.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, because of the material weakness in internal control over financial reporting described in our 2017 Form 10-K as filed on February

13, 2018, our disclosure controls and procedures were not effective as of September 30, 2018.

- 35-

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our prior Form 10-K filing, we identified and reported a material weakness in the Company's internal control over financial reporting related to our internal controls over ensuring that all revenue recognition criteria are satisfied prior to the recognition of revenue. We are executing our remediation plan as described fully in our 2017 Form 10-K. In response to the identified material weakness, our management, with oversight from our audit committee, has dedicated resources to improve our control environment and to remedy the identified material weakness.

We believe that we have designed the appropriate controls to remediate the material weakness and began executing the controls during the nine months ended September 30, 2018. These controls include additional procedures related to the review and approval of terms and conditions of revenue contracts. However, the Company is required to demonstrate the effectiveness of the new processes for a sufficient period of time. Therefore, until all remedial actions, including the efforts to test the control activities, are fully completed, the material weakness identified will continue to exist. We are committed to achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity and transparency.

Changes in Internal Control Over Financial Reporting

As described above, we have designed and implemented additional controls in connection with our remediation plan. Other than these additional controls, there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), for the three and nine month periods ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1: Legal Proceedings

PPC Broadband, Inc. v. Corning Optical Communications RF, LLC - On July 5, 2011, the Company's wholly-owned subsidiary, PPC Broadband, Inc. ("PPC"), filed an action for patent infringement in the U.S. District Court for the Northern District of New York against Corning Optical Communications RF LLC ("Corning"). The Complaint alleged that Corning infringed two of PPC's patents - U.S. Patent Nos. 6,558,194 and 6,848,940 - each entitled "Connector and Method of Operation." In July 2015, a jury found that Corning willfully infringed both patents. In November 2016, following a series of post-trial motions, the trial judge issued rulings for a total judgment in our favor of approximately \$61.3 million. In December 2016, Corning appealed the case to the U.S. Court of Appeals for the Federal Circuit. In March 2018, a panel of three judges of the United States Court of Appeals for the Federal Circuit issued a Rule 36 Affirmance of the District Court's final judgment that Corning, among other things, willfully infringed the PPC universal compression patents at issue in the case, and that PPC should be awarded approximately \$61.8 million, plus accrued interest. In April 2018, Corning filed a petition for re-hearing, which was denied in May 2018. On July 16, 2018, the District Court ruled that Corning shall pay the judgments. We received a pre-tax amount of approximately \$62.1 million from Corning on July 19, 2018. We recorded the \$62.1 million of cash received as a pre-tax gain from patent litigation during the three and nine months ended September 30, 2018. Prior to the third quarter of 2018, we had not recognized any amounts in our consolidated financial statements related to this matter. On September 27, 2018, Corning filed a petition for certiorari review by the U.S. Supreme Court of the District Court's decision to exercise its discretion to award PPC \$23.85 million in enhanced damages based on the totality of the evidence, including a number of factual findings regarding Corning's willful infringement and egregious conduct. For at least the same reasons why the Federal Circuit affirmed the District Court's decision to enhance damages, we

believe that Corning's certiorari petition will not be granted, thus exhausting Corning's opportunities for further appellate relief.

We are also a party to various legal proceedings and administrative actions that are incidental to our operations. In our opinion, the proceedings and actions in which we are involved should not, individually or in the aggregate, have a material adverse effect on our financial condition, operating results, or cash flows. However, since the trends and outcome of this litigation are inherently uncertain, we cannot give absolute assurance regarding the future resolution of such litigation, or that such litigation may not become material in the future.

Item 1A: Risk Factors

Following is a discussion of some of the more significant risks that could materially impact our business, including certain updates since previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended July 1, 2018, filed with the Securities and Exchange Commission (“SEC”) on August 6, 2018. There may be additional risks that impact our business that we currently do not recognize as, or that are not currently, material to our business.

A challenging global economic environment or a downturn in the markets we serve could adversely affect our operating results and stock price in a material manner.

A challenging global economic environment could cause substantial reductions in our revenue and results of operations as a result of weaker demand by the end users of our products and price erosion. Price erosion may occur through competitors becoming more aggressive in pricing practices. A challenging global economy could also make it difficult for our customers, our vendors, and us to accurately forecast and plan future business activities. Our customers could also face issues gaining timely access to sufficient credit, which could have an adverse effect on our results if such events cause reductions in revenues, delays in collection, or write-offs of receivables. Further, the demand for many of our products is economically sensitive and will vary with general economic activity, trends in nonresidential construction, investment in manufacturing facilities and automation, demand for information and broadcast technology equipment, and other economic factors.

Global economic uncertainty could result in a significant decline in the value of foreign currencies relative to the U.S. dollar, which could result in a significant adverse effect on our revenues and results of operations; could make it extremely difficult for our customers and us to accurately forecast and plan future business activities; and could cause our customers to slow or reduce spending on our products and services. Economic uncertainty could also arise from fiscal policy changes in the countries in which we operate.

Changes in foreign currency rates and commodity prices can impact the buying power of our customers. For example, a strengthened U.S. dollar can result in relative price increases for our products for customers outside of the U.S., which can have a negative impact on our revenues and results of operations. Furthermore, customers’ ability to invest in capital expenditures, such as our products, can depend upon proceeds from commodities, such as oil and gas markets. A decline in energy prices, therefore, can have a negative impact on our revenues and results of operations.

The global markets in which we operate are highly competitive.

We face competition from other manufacturers for each of our global business platforms and in each of our geographic regions. These companies compete on price, reputation and quality, product technology and characteristics, and terms. Some multinational competitors have greater engineering, financial, manufacturing, and marketing resources than we have. Actions that may be taken by competitors, including pricing, business alliances, new product introductions, market penetration, and other actions, could have a negative effect on our revenues and profitability. Moreover, some competitors that are highly leveraged both financially and operationally could become more aggressive in their pricing of products.

Volatility of credit markets could adversely affect our business.

Uncertainty in U.S. and global financial and equity markets could make it more expensive for us to conduct our operations and more difficult for our customers to buy our products. Additionally, market volatility or uncertainty may cause us to be unable to pursue or complete acquisitions. Our ability to implement our business strategy and grow our business, particularly through acquisitions, may depend on our ability to raise capital by selling equity or debt securities or obtaining additional debt financing. Market conditions may prevent us from obtaining financing when we need it or on terms acceptable to us.

We may be unable to achieve our goals related to growth.

In order to meet the goals in our strategic plan, we must grow our business, both organically and through acquisitions. Our goal is to generate total revenue growth of 5-7% per year in constant currency. We may be unable to achieve this desired growth due to a failure to identify growth opportunities, such as trends and technological changes in our end markets. We may ineffectively execute our Market Delivery System (“MDS”), which is designed to identify and capture growth opportunities. The broadcast, enterprise, and industrial end markets we serve may not experience the growth we expect. Further, those markets may be unable to sustain growth on a long-term basis, particularly in emerging markets. If we are unable to achieve our goals related to growth, it could have a material adverse effect on our results of operations, financial position, and cash flows.

We may be unable to implement our strategic plan successfully.

- 37-

Our strategic plan is designed to continually enhance shareholder value by improving revenues and profitability, reducing costs, and improving working capital management. To achieve these goals, our strategic priorities are reliant on our Belden Business System, which includes continuing deployment of our MDS so as to capture market share through end-user engagement, channel management, outbound marketing, and careful vertical market selection; improving our recruitment and development of talented associates; developing strong global business platforms; acquiring businesses that fit our strategic plan; and becoming a leading Lean company. We have a disciplined process for deploying this strategic plan through our associates. There is a risk that we may not be successful in developing or executing these measures to achieve the expected results for a variety of reasons, including market developments, economic conditions, shortcomings in establishing appropriate action plans, or challenges with executing multiple initiatives simultaneously. For example, our MDS initiative may not succeed or we may lose market share due to challenges in choosing the right products to market or the right customers for these products, integrating products of acquired companies into our sales and marketing strategy, or strategically bidding against OEM partners. We may fail to identify growth opportunities. We may not be able to acquire businesses that fit our strategic plan on acceptable business terms, and we may not achieve our other strategic priorities.

We may be unable to achieve our strategic priorities in emerging markets.

Emerging markets are a significant focus of our strategic plan. The developing nature of these markets presents a number of risks. We may be unable to attract, develop, and retain appropriate talent to manage our businesses in emerging markets. Deterioration of social, political, labor, or economic conditions in a specific country or region may adversely affect our operations or financial results. Emerging markets may not meet our growth expectations, and we may be unable to maintain such growth or to balance such growth with financial goals and compliance requirements. Among the risks in emerging market countries are bureaucratic intrusions and delays, contract compliance failures, engrained business partners that do not comply with local or U.S. law, such as the Foreign Corrupt Practices Act, fluctuating currencies and interest rates, limitations on the amount and nature of investments, restrictions on permissible forms and structures of investment, unreliable legal and financial infrastructure, regime disruption and political unrest, uncontrolled inflation and commodity prices, fierce local competition by companies with better political connections, and corruption. In addition, the costs of compliance with local laws and regulations in emerging markets may negatively impact our competitive position as compared to locally owned manufacturers.

The presence of substitute products in the marketplace may reduce demand for our products and negatively impact our business.

Fiber optic systems are increasingly substitutable for copper based cable systems. Customers may shift demand to fiber optic systems with greater capabilities than copper based cable systems, leading to a reduction in demand for copper based cable. We may not be able to offset the effects of a reduction in demand for our copper-based cable systems with an increase in demand for our existing fiber optic systems. Further, the supply chain in the fiber market is highly constrained, with a small number of vertically integrated firms controlling critical inputs and the related intellectual property. These factors, either together or in isolation, may negatively impact revenue and profitability.

Our future success depends in part on our ability to develop and introduce new products and respond to changes in customer preferences.

Our markets are characterized by the introduction of products with increasing technological capabilities. Our success depends in part on our ability to anticipate and offer products that appeal to the changing needs and preferences of our customers in the various markets we serve. Developing new products and adapting existing products to meet evolving customer expectations requires high levels of innovation, and the development process may be lengthy and costly. If we are not able to anticipate, identify, develop and market products that respond to changes in customer preferences,

demand for our products could decline.

The relative costs and merits of our solutions could change in the future as various competing technologies address the market opportunities. We believe that our future success will depend in part upon our ability to enhance existing products and to develop and manufacture new products that meet or anticipate technological changes, which will require continued investment in engineering, research and development, capital equipment, marketing, customer service, and technical support. We have long been successful in introducing successive generations of more capable products, but if we were to fail to keep pace with technology or with the products of competitors, we might lose market share and harm our reputation and position as a technology leader in our markets. See further discussion in Part I, Item 1 to our 2017 Form 10-K, under Research and Development.

The increased prevalence of cloud computing may negatively impact certain aspects of our business.

- 38-

The nature in which many of our products are purchased or used is evolving with the increasing prevalence of cloud computing and other methods of off-premises computing and data storage. This may negatively impact one or more of our business in a number of ways, including:

- Consolidation of procurement power leading to the commoditization of IT products;
- Reduction in the demand for infrastructure products previously used to support on-site data centers;
- Lowering barriers to entry for certain markets, leading to new market entrants and enhanced competition;
- Preferences for software as a service billing and pricing models may reduce demand for non-cloud “packaged” software.

Alterations to our product mix and go-to-market strategies designed to respond to the changes in the marketplace presented by cloud computing may be disruptive to our business and lead to increase expenses, which may result in lower revenues and profitability. Further, if a competitor is able to more quickly or efficiently adapt, or if cloud computing results in significantly lower barriers to entry and new competitors enter our markets, demand for our products may be reduced.

We must complete further acquisitions in order to achieve our strategic plan.

In order to meet the goals in our strategic plan, we must complete further acquisitions. The extent to which appropriate acquisitions are made will affect our overall growth, operating results, financial condition, and cash flows. Our ability to acquire businesses successfully will decline if we are unable to identify appropriate acquisition targets consistent with our strategic plan, the competition among potential buyers increases, the cost of acquiring suitable businesses becomes too expensive, or we lack sufficient sources of capital. As a result, we may be unable to make acquisitions or be forced to pay more or agree to less advantageous acquisition terms for the companies that we are able to acquire.

We may have difficulty integrating the operations of acquired businesses, which could negatively affect our results of operations and profitability.

We may have difficulty integrating acquired businesses and future acquisitions might not meet our performance expectations. Some of the integration challenges we might face include differences in corporate culture and management styles, additional or conflicting governmental regulations, preparation of the acquired operations for adoption of ASC 606, compliance with the Sarbanes-Oxley Act of 2002, financial reporting that is not in compliance with U.S. generally accepted accounting principles, disparate company policies and practices, customer relationship issues, and retention of key personnel. In addition, management may be required to devote a considerable amount of time to the integration process, which could decrease the amount of time we have to manage the other businesses. We may not be able to integrate operations successfully or cost-effectively, which could have a negative impact on our results of operations or our profitability. The process of integrating operations could also cause some interruption of, or the loss of momentum in, the activities of acquired businesses.

Our results of operations are subject to foreign and domestic political, economic, and other uncertainties and are affected by changes in currency exchange rates.

In addition to manufacturing and other operating facilities in the U.S., we have manufacturing and other operating facilities in Brazil, Canada, China, Japan, Mexico, St. Kitts, and several European countries. We rely on suppliers in many countries, including China. Our foreign operations are subject to economic and political risks inherent in maintaining operations abroad such as economic and political destabilization, land use risks, international conflicts, restrictive actions by foreign governments, and adverse foreign tax laws. In addition to economic and political risk, a risk associated with our European manufacturing operations is the higher relative expense and length of time required to adjust manufacturing employment capacity. We also face political risks in the U.S., including tax or regulatory risks or potential adverse impacts from legislative impasses over, or significant legislative, regulatory or executive changes

in fiscal or monetary policy and other foreign and domestic government policies, including, but not limited to, trade policies and import/export policies.

Approximately 48% - 49% of our sales are outside the U.S. Other than the U.S. dollar, the principal currencies to which we are exposed through our manufacturing operations, sales, and related cash holdings are the euro, the Canadian dollar, the Hong Kong dollar, the Chinese yuan, the Japanese yen, the Mexican peso, the Australian dollar, the British pound, and the Brazilian real. Generally, we have revenues and costs in the same currency, thereby reducing our overall currency risk, although any realignment of our manufacturing capacity among our global facilities could alter this balance. When the U.S. dollar strengthens against other currencies, the results of our non-U.S. operations are translated at a lower exchange rate and thus into lower reported revenues and earnings.

Changes in tax laws may adversely affect our financial position.

On December 22, 2017, the “Tax Cuts and Jobs Act” (the “Act”) was signed into law. The Act significantly reforms the Internal Revenue Code of 1986, as amended. The Act, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the immediate expensing of capital expenditures, and puts into effect the migration from a worldwide system of taxation to a territorial system and imposes several other changes to tax law on U.S. corporations. As all adjustments related to the Act remain provisional as of the date of this report, the total impact on our financial position is uncertain and could be materially adverse.

In addition, many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws. If tax laws and related regulations change, our financial results could be materially impacted. Given the unpredictability of these possible changes and their potential interdependency, it is possible such changes could adversely impact our financial results.

We may experience significant variability in our quarterly and annual effective tax rate which would affect our reported net income.

We have a complex tax profile due to the global nature of our operations, which encompass multiple taxing jurisdictions. Variability in the mix and profitability of domestic and international activities, identification and resolution of various tax uncertainties, changes in tax laws and rates, and the extent to which we are able to realize net operating loss and other carryforwards included in deferred tax assets and avoid potential adverse outcomes included in deferred tax liabilities, among other matters, may significantly affect our effective income tax rate in the future.

Our effective income tax rate is the result of the income tax rates in the various countries in which we do business. Our mix of income and losses in these jurisdictions affects our effective tax rate. For example, relatively more income in higher tax rate jurisdictions would increase our effective tax rate and thus lower our net income. Similarly, if we generate losses in tax jurisdictions for which no benefits are available; our effective income tax rate will increase. Our effective income tax rate may also be impacted by the recognition of discrete income tax items, such as required adjustments to our liabilities for uncertain tax positions or our deferred tax asset valuation allowance. A significant increase in our effective income tax rate could have a material adverse impact on our earnings.

Of our \$329.0 million cash and cash equivalents balance as of September 30, 2018, \$177.0 million was held outside of the U.S. in our foreign operations. The Tax Cuts and Jobs Act of 2017 included a one-time transition tax of unremitted foreign earnings, and accordingly, we recorded preliminary tax expense related to the transition tax on the one-time mandatory deemed repatriation of all our foreign earnings as of December 31, 2017. See Note 12 Income Taxes in the accompanying notes to our consolidated financial statements.

The increased influence of chief information officers and similar high-level executives may negatively impact demand for our products.

As a result of the increasing interconnectivity of a wide variety of systems, chief information officers and similar executives are becoming more heavily involved in operation areas that have not historically been associated with information technology. As a result, CIOs and IT departments are exercising increased influence over the procurement and purchasing process at the expense of engineers, plant managers and operation personnel that have historically driven demand for many of our products. When making purchasing decisions, CIO’s often value interoperability, standardization, cloud-readiness and security over domain expertise and niche application knowledge. As a result of the increasing influences of CIOs and IT departments, we may face increased competition from IT-industry companies that have not traditionally had major presences in the markets in which we operate. Further, the variance in considerations that drive purchasing decisions between CIOs and those with niche application expertise may result in

increased competition based on price and a reduction in demand for our products.

Potential problems with our information systems could interfere with our business and operations.

We rely on our information systems and those of third parties for storing proprietary company information about our products and intellectual property, as well as for processing customer orders, manufacturing and shipping products, billing our customers, tracking inventory, supporting accounting functions and financial statement preparation, paying our employees, and otherwise running our business. Any disruption, whether from hackers or other sources, in our information systems or those of the third parties upon whom we rely could have a significant impact on our business. In addition, we may need to enhance our information systems to provide additional capabilities and functionality. The implementation of new information systems and enhancements is frequently disruptive to the underlying business of an enterprise. Any disruptions affecting our ability to accurately report our financial performance on a timely basis could adversely affect our business in a number of respects. If we

- 40-

are unable to successfully implement potential future information systems enhancements, our financial position, results of operations, and cash flows could be negatively impacted.

We, and others on our behalf, store “personally identifiable information” (“PII”) with respect to employees, vendors, customers, and others. While we have implemented safeguards to protect the privacy of this information, it is possible that hackers or others might obtain this information. If that occurs, in addition to having to take potentially costly remedial action, we also may be subject to fines, penalties, lawsuits, and reputational damage.

Perceived failure of our signal transmission solutions to provide expected results may result in negative publicity and harm our business and operating results.

Our customers use our signal transmission solutions in a wide variety of IT systems and application environments in order to help reduce security vulnerabilities and demonstrate compliance. Despite our efforts to make clear in our marketing materials and customer agreements the capabilities and limitations of these products, some customers may incorrectly view the deployment of such products in their IT infrastructure as a guarantee that there will be no security breach or policy non-compliance event. As a result, the occurrence of a high profile security breach, or a failure by one of our customers to pass a regulatory compliance IT audit, could result in public and customer perception that our solutions are not effective and harm our business and operating results, even if the occurrence is unrelated to the use of such products or if the failure is the result of actions or inactions on the part of the customer.

Our use of open source software could negatively impact our ability to sell our products and may subject us to unanticipated obligations.

The products, services, or technologies we acquire, license, provide, or develop may incorporate or use open source software. We monitor and restrict our use of open source software in an effort to avoid unintended consequences, such as reciprocal license grants, patent retaliation clauses, and the requirement to license our products at no cost. Nevertheless, we may be subject to unanticipated obligations regarding our products which incorporate or use open source software.

Changes in the price and availability of raw materials we use could be detrimental to our profitability.

Copper is a significant component of the cost of most of our cable products. Over the past few years, the prices of metals, particularly copper, have been highly volatile. Prices of other materials we use, such as polyvinylchloride (PVC) and other plastics derived from petrochemical feedstocks, have also been volatile. Generally, we have recovered much of the higher cost of raw materials through higher pricing of our finished products. The majority of our products are sold through distribution, and we manage the pricing of these products through published price lists which we update from time to time, with new prices typically taking effect a few weeks after they are announced. Some OEM contracts have provisions for passing through raw material cost changes, generally with a lag of a few weeks to three months. If we are unable to raise prices sufficiently to recover our material costs, our earnings could decline. If we raise our prices but competitors raise their prices less, we may lose sales, and our earnings could decline. If the price of copper were to decline, we may be compelled to reduce prices to remain competitive, which could have a negative effect on revenues. While we generally believe the supply of raw materials (copper, plastics, and other materials) is adequate, we have experienced instances of limited supply of certain raw materials, resulting in extended lead times and higher prices. If a supply interruption or shortage of materials were to occur (including due to labor or political disputes), this could have a negative effect on revenues and earnings.

Our revenue for any particular period can be difficult to forecast.

Our revenue for any particular period can be difficult to forecast, especially in light of the challenging and inconsistent global macroeconomic environment and related market uncertainty. Our revenue may grow at a slower rate than in past periods or even decline on a year-over-year basis. Changes in market growth rates can have a significant effect on our operating results.

The timing of orders for customer projects can also have a significant effect on our operating results in the period in which the products are shipped and recognized as revenue. The timing of such projects is difficult to predict, and the timing of revenue recognition from such projects may affect period to period changes in revenue. As a result, our operating results could vary materially from quarter to quarter based on the receipt of such orders and their ultimate recognition as revenue. Similarly, we are often informed by our customers well in advance that such customer intends to place an order related to a specific project in a given quarter. Such a customer's timeline for execution of the project, and the resulting purchase order, may be unexpectedly delayed to a future quarter, or cancelled. The frequency of such delays can be difficult to predict. As a result, it is difficult to precisely forecast revenue and operating results for future quarters.

In addition, our revenue can be difficult to forecast due to unexpected changes in the level of our products held as inventory by our channel partners and customers. Our channel partners and customers purchase and hold our products in their inventory in order to meet the service and on-time delivery requirements of their customers. As our channel partners and customers change the level of Belden products owned and held in their inventory, our revenue is impacted. As we are dependent upon our channel partners and customers to provide us with information regarding the amount of our products that they own and hold in their inventory, unexpected changes can occur and impact our revenue forecast.

Our revenue and profits would likely decline, at least temporarily, if we were to lose a key distributor.

We rely on several key distributors in marketing our products. Distributors purchase and carry the products of our competitors along with our products. Our largest distributor, Anixter International Inc., accounted for 12% of our revenue in 2017 and our top six distributors, including Anixter, accounted for a total of 23% of our revenue in 2017. If we were to lose one of these key distributors, our revenue and profits would likely decline, at least temporarily. Changes in the inventory levels of our products owned and held by our distributors can result in significant variability in our revenues. Further, certain distributors are allowed to return certain inventory in exchange for an order of equal or greater value. We have recorded reserves for the estimated impact of these inventory policies.

Consolidation of our distributors, particularly where the survivor relies more heavily on our competitors, could adversely impact our revenues and earnings. It could also result in consolidation of distributor inventory, which would temporarily depress our revenues. We have also experienced financial failure of distributors from time to time, resulting in our inability to collect accounts receivable in full. A global economic downturn could cause financial difficulties (including bankruptcy) for our distributors and other customers, which would adversely affect our results of operations.

If we are unable to retain senior management and key employees, our business operations could be adversely affected.

Our success has been largely dependent on the skills, experience, and efforts of our senior management and key employees. The loss of any of our senior management or other key employees, for example sales and product development employees, could have an adverse effect on us. We may not be able to find qualified replacements for these individuals and the integration of potential replacements may be disruptive to our business. More broadly, a key determinant of our success is our ability to attract, develop, and retain talented associates. While this is one of our strategic priorities, we may not be able to succeed in this regard.

We might have difficulty protecting our intellectual property from use by competitors, or competitors might accuse us of violating their intellectual property rights.

Disagreements about patents and other intellectual property rights occur in the markets we serve. Third parties have asserted and may in the future assert claims of infringement of intellectual property rights against us or against our customers or channel partners for which we may be liable. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. We may encounter difficulty enforcing our own intellectual property rights against third parties, which could result in price erosion or loss of market share.

Changes in global tariffs and trade agreements may have a negative impact on global economic conditions, markets and our business.

Like most multinational companies, we have supply chains and sales channels that extend beyond national borders. Purchasing and production decisions in some cases are largely influenced by the trade agreements and the tax and

tariff structures in place. Disruption in those structures can create significant market uncertainty. While the impact of the announced U.S. and Chinese tariff actions is not expected to be material to us, an escalation of tariff activity anywhere in the world or changes to existing free trade agreements could materially impact our financial results. In addition to potential direct impacts, longer term macroeconomic consequences could result, including slower growth, inflation, higher interest rates and unfavorable impacts to currency exchange rates. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

We are subject to laws and regulations worldwide, changes to which could increase our costs and individually or in the aggregate adversely affect our business.

We are subject to laws and regulations affecting our domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect our activities including, but not limited to, in areas of labor, advertising, real estate, billing, e-commerce, promotions, quality of services, property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health and safety.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make our products and services less attractive to our customers, delay the introduction of new products in one or more regions, or cause us to change or limit our business practices. We have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies and procedures.

Specifically with respect to data privacy, the European Commission has approved a data protection regulation, known as the General Data Protection Regulation (GDPR), which became effective in May 2018. The GDPR includes operational requirements for companies that receive or process personal data of residents of the European Union that are different than those previously in place in the European Union, and includes significant penalties for non-compliance. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

If our goodwill or other intangible assets become impaired, we would be required to recognize charges that would reduce our income.

Under accounting principles generally accepted in the U.S., goodwill and certain other intangible assets are not amortized but must be reviewed for possible impairment annually or more often in certain circumstances if events indicate that the asset values may not be recoverable. We have incurred significant charges for the impairment of goodwill and other intangible assets in the past, and we may be required to do so again in future periods if the underlying value of our business declines. Such a charge would reduce our income without any change to our underlying cash flows.

Some of our employees are members of collective bargaining groups, and we might be subject to labor actions that would interrupt our business.

Some of our employees, primarily outside the U.S., are members of collective bargaining groups. We believe that our relations with employees are generally good. However, if there were a dispute with one of these bargaining groups, the affected operations could be interrupted, resulting in lost revenues, lost profit contribution, and customer dissatisfaction.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Set forth below is information regarding our stock repurchases for the three months ended September 30, 2018 (in thousands, except per share amounts).

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 2, 2018 through August 5, 2018	—	\$—	—	\$ 75,000

Edgar Filing: BELDEN INC. - Form 10-Q

August 6, 2018 through September 2, 2018	344	72.62	344	50,000
September 3, 2018 through September 30, 2018	—	—	—	50,000
Total	344	\$ 72.62	344	\$ 50,000

(1) In May 2017, our Board of Directors authorized a share repurchase program, which allows us to purchase up to \$200.0 million of our common stock through open market repurchases, negotiated transactions, or other means, in accordance with applicable securities laws and other restrictions. This program is funded with cash on hand and cash flows from operating activities. The program does not have an expiration date and may be suspended at any time at the discretion of the Company. From inception of the program to September 30, 2018, we have repurchased 2.1 million shares of our common stock under the program for an aggregate cost of \$150.0 million and an average price of \$71.57. During the three months ended September 30, 2018, we repurchased 0.3 million shares of our common stock under the share repurchase program for an aggregate cost of \$25.0 million and an average price per share of \$72.62. During the nine months ended September 30, 2018, we repurchased 1.8 million shares of our common stock under the share repurchase program for an aggregate cost of \$125.0 million and an average price per share of \$70.13.

- 43-

Item 6: Exhibits
Exhibits

Exhibit 10.1	<u>Executive Employment Agreement with Leo Kulmaczewski</u>
Exhibit 31.1	<u>Certificate of the Chief Executive Officer pursuant to § 302 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 31.2	<u>Certificate of the Chief Financial Officer pursuant to § 302 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 32.1	<u>Certificate of the Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 32.2	<u>Certificate of the Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation
Exhibit 101.DEF	XBRL Taxonomy Extension Definition
Exhibit 101.LAB	XBRL Taxonomy Extension Label
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation

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.

BELDEN INC.

Date: November 5, 2018 By: /s/ John S. Stroup

John S. Stroup
President, Chief Executive Officer, and Chairman

Date: November 5, 2018 By: /s/ Henk Derksen

Henk Derksen
Senior Vice President, Finance, and Chief Financial Officer

Date: November 5, 2018 By: /s/ Douglas R. Zink

Douglas R. Zink
Vice President and Chief Accounting Officer