BELDEN INC.
Form 10-Q
November 07, 2016

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 October 2, 2016
Commission File No. 001-12561

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

Delaware	36-3601505
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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 þ No ¨.
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every interactive data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨.
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ.
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)
As of November 4, 2016, the Registrant had 42,144,409 outstanding shares of common stock.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements
BELDEN INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	October 2, 2016	December 31, 2015
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$748,305	$216,751
Receivables, net	400,528	387,386
Inventories, net	193,500	195,942
Other current assets	55,345	37,079
Total current assets	1,397,678	837,158
Property, plant and equipment, less accumulated depreciation	323,110	310,629
Goodwill	1,399,847	1,385,115
Intangible assets, less accumulated amortization	590,785	655,871
Deferred income taxes	30,596	34,295
Other long-lived assets	69,947	67,534
	$3,811,963	$3,290,602
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$220,827	$223,514
Accrued liabilities	294,209	323,249
Current maturities of long-term debt	2,500	2,500
Total current liabilities	517,536	549,263
Long-term debt	1,690,932	1,725,282
Postretirement benefits	106,779	105,230
Deferred income taxes	45,381	46,034
Other long-term liabilities	38,283	39,270
Stockholders' equity:		
Preferred stock	1	—
Common stock	503	503
Additional paid-in capital	1,114,348	605,660
Retained earnings	760,688	679,716
Accumulated other comprehensive loss	(62,876)	(58,987)
Treasury stock	(400,718)	(402,793)
Total Belden stockholders' equity	1,411,946	824,099
Noncontrolling interest	1,106	1,424
Total stockholders' equity	1,413,052	825,523
	$3,811,963	$3,290,602

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	
	October 2, 2016	September 27, 2015	October 2, 2016	September 27, 2015
	(In thousands, except per share data)			
Revenues	$601,109	$ 579,266	$1,744,237	$1,711,978
Cost of sales	(355,147)	(353,135)	(1,025,027)	(1,043,922)
Gross profit	245,962	226,131	719,210	668,056
Selling, general and administrative expenses	(126,662)	(127,792)	(372,125)	(395,424)
Research and development	(33,512)	(38,168)	(106,297)	(110,999)
Amortization of intangibles	(23,808)	(25,669)	(75,603)	(78,090)
Operating income	61,980	34,502	165,185	83,543
Interest expense, net	(23,513)	(25,416)	(71,958)	(74,031)
Income from continuing operations before taxes	38,467	9,086	93,227	9,512
Income tax benefit (expense)	(2,902)	5,725	513	7,340
Income from continuing operations	35,565	14,811	93,740	16,852
Loss from discontinued operations, net of tax	—	(242)	—	(242)
Loss from disposal of discontinued operations, net of tax	—	—	—	(86)
Net income	35,565	14,569	93,740	16,524
Less: Net loss attributable to noncontrolling interest	(88)	—	(286)	—
Net income attributable to Belden	35,653	14,569	94,026	16,524
Less: Preferred stock dividends	6,695	—	6,695	—
Net income attributable to Belden common stockholders	$28,958	$ 14,569	$87,331	$16,524
Weighted average number of common shares and equivalents:				
Basic	42,126	42,417	42,073	42,536
Diluted	42,601	42,908	42,532	43,117
Basic income (loss) per share attributable to Belden common stockholders:				
Continuing operations	$0.69	$ 0.35	$2.08	$0.40
Discontinued operations	—	(0.01)	—	(0.01)
Disposal of discontinued operations	—	—	—	—
Net income	$0.69	$ 0.34	$2.08	$0.39
Diluted income (loss) per share attributable to Belden common stockholders:				
Continuing operations	$0.68	$ 0.35	$2.05	$0.39
Discontinued operations	—	(0.01)	—	(0.01)
Disposal of discontinued operations	—	—	—	—
Net income	$0.68	$ 0.34	$2.05	$0.38
Comprehensive income (loss) attributable to Belden	$31,846	$ (9,803)	$90,137	$4,036
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	
	October 2, 2016	September 27, 2015
	(In thousands)	
Cash flows from operating activities:		
Net income	$93,740	$ 16,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	110,857	113,141
Share-based compensation	13,943	13,814
Tax benefit related to share-based compensation	(623)	(5,064)
Changes in operating assets and liabilities, net of the effects of currency exchange rate changes and acquired businesses:		
Receivables	(9,843)	(6,532)
Inventories	5,626	7,979
Accounts payable	(3,889)	(55,973)
Accrued liabilities	(43,594)	29,354
Accrued taxes	(16,752)	(23,884)
Other assets	2,798	1,935
Other liabilities	(5,457)	687
Net cash provided by operating activities	146,806	91,981
Cash flows from investing activities:		
Capital expenditures	(36,057)	(39,106)
Cash used to acquire businesses, net of cash acquired	(17,848)	(695,345)
Proceeds from disposal of tangible assets	282	145
Proceeds from disposable of business	—	3,527
Other	(971)	—
Net cash used for investing activities	(54,594)	(730,779)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock, net	501,498	—
Tax benefit related to share-based compensation	623	5,064
Borrowings under credit arrangements	—	200,000
Payments under borrowing arrangements	(51,875)	(1,250)
Dividends paid on common stock	(6,307)	(6,386)
Withholding tax payments for share-based payment awards, net of proceeds from the exercise of stock options	(5,302)	(11,517)
Debt issuance costs paid	—	(643)
Payments under share repurchase program	—	(39,053)
Net cash provided by financing activities	438,637	146,215
Effect of foreign currency exchange rate changes on cash and cash equivalents	705	(6,682)
Increase (decrease) in cash and cash equivalents	531,554	(499,265)
Cash and cash equivalents, beginning of period	216,751	741,162
Cash and cash equivalents, end of period	$748,305	$ 241,897

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

- 3-

BELDEN INC.
CONDENSED CONSOLIDATED STOCKHOLDERS' EQUITY STATEMENT
NINE MONTHS ENDED OCTOBER 2, 2016
(Unaudited)

	Belden Inc. Stockholders										
	Mandatory Convertible Preferred Stock		Common Stock		Additional Paid-In	Retained	Treasury Stock		Accumulated Other Comprehensive	Non-controlling	
	Shares	Amount	Shares	Amount	Capital	Earnings	Shares	Amount	Income (Loss)	Interest	Total
	(In thousands)										
Balance at December 31, 2015	—	$—	50,335	$503	$605,660	$679,716	(8,354)	$(402,793)	$(58,987)	$1,424	$825,523
Net income (loss)	—	—	—	—	—	94,026	—	—	—	(286)	93,740
Foreign currency translation, net of $1.5 million tax	—	—	—	—	—	—	—	—	(9,823)	(32)	(9,855)
Adjustments to pension and postretirement liability, net of $3.7 million tax	—	—	—	—	—	—	—	—	5,934	—	5,934
Other comprehensive loss, net of tax											(3,921)
Preferred stock issuance, net	52	1	—	—	501,497	—	—	—	—	—	501,498
Exercise of stock options, net of tax withholding forfeitures	—	—	—	—	(2,388)	—	42	327	—	—	(2,061)
Conversion of restricted stock units into common stock, net of tax withholding forfeitures	—	—	—	—	(4,987)	—	121	1,748	—	—	(3,239)
Share-based compensation	—	—	—	—	14,566	—	—	—	—	—	14,566
	—	—	—	—	—	(6,695)	—	—	—	—	(6,695)

Preferred stock dividends											
Common stock dividends ($0.15 per share)	—	—	—	—	—	(6,359)	—	—	—	—	(6,359)
Balance at October 2, 2016	52	$1	50,335	$503	$1,114,348	$760,688	(8,191)	$(400,718)	$(62,876)	$1,106	$1,413,052

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, 2015:

- 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 2015 Annual Report on Form 10-K and Current Report on Form 8-K filed with the Securities and Exchange Commission on May 31, 2016.
Business Description
We are an innovative signal transmission solutions provider built around five global business platforms – Broadcast Solutions, Enterprise Connectivity Solutions, Industrial Connectivity Solutions, Industrial IT Solutions, and Network Security 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 3, 2016, the 94th day of our fiscal year 2016. Our fiscal second and third quarters each have 91 days. The nine months ended October 2, 2016 and September 27, 2015 included 276 days and 270 days, respectively.
Reclassifications
We have made certain reclassifications to the 2015 Condensed Consolidated Financial Statements with no impact to reported net income in order to conform to the 2016 presentation.
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 October 2, 2016 and September 27, 2015, we utilized Level 1 inputs to determine the fair value of cash equivalents and Level 3 inputs to determine the fair value of the estimated earn-out liability related to an acquisition. See Note 2 for further discussion. We did not have any transfers between Level 1 and Level 2 fair value measurements during the nine months ended October 2, 2016 and September 27, 2015.

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. 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. As of October 2, 2016, we did not have any significant cash equivalents.

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 October 2, 2016, we were party to standby letters of credit, bank guaranties, and surety bonds totaling $8.6 million, $3.0 million, and $2.4 million, respectively.

Revenue Recognition

We recognize revenue when all of the following circumstances are satisfied: (1) persuasive evidence of an arrangement exists, (2) price is fixed or determinable, (3) collectability is reasonably assured, and (4) delivery has occurred. Delivery occurs in the period in which the customer takes title and assumes the risks and rewards of ownership of the products specified in the customer’s purchase order or sales agreement. At times, we enter into arrangements that involve the delivery of multiple elements. For these arrangements, when the elements can be separated, the revenue is allocated to each deliverable based on that element’s relative selling price and recognized based on the period of delivery for each element. Generally, we determine relative selling price using our best estimate of selling price, unless we have established vendor specific objective evidence (VSOE) or third party evidence of fair value exists for such arrangements.

We record revenue net of estimated rebates, price allowances, invoicing adjustments, and product returns. We record revisions to these estimates in the period in which the facts that give rise to each revision become known.

We have certain products subject to the accounting guidance on software revenue recognition. For such products, software license revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed or determinable, collection is probable and VSOE of the fair value of undelivered elements exists. As substantially all of the software licenses are sold in multiple-element arrangements that include either support or both support and professional services, we use the residual method to determine the amount of software license revenue to be recognized. Under the residual method, consideration is allocated to undelivered elements based upon VSOE of the fair value of those elements, with the residual of the arrangement fee allocated to and recognized as software license revenue. In our Network Security Solutions segment, we have established VSOE of the fair value of support, subscription-based software licenses and professional services. Software license revenue is generally recognized upon delivery of the software if all revenue recognition criteria are met.

Revenue allocated to support services under our Network Security Solutions support contracts, subscription-based software, and remote ongoing operational services is paid in advance and recognized ratably over the term of the service. Revenue allocated to professional services, including remote implementation services, is recognized as the services are performed.

Discontinued Operations

In the nine months ended September 27, 2015, we recognized a $0.2 million ($0.1 million net of tax) loss from disposal of discontinued operations for a final escrow settlement related to the 2010 disposition of Trapeze Networks, Inc. Additionally, in both the three and nine months ended September 27, 2015, we recognized a $0.2 million net loss from discontinued operations for income tax expense related to this disposed business.

Subsequent Events
We have evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure. See Note 13.
Current-Year Adoption of Accounting Pronouncements
In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for fiscal years beginning after December 15, 2015. We adopted ASU 2015-03 effective January 1, 2016, retrospectively. Adoption resulted in a $6.0 million decrease in total current assets, a $19.2 million decrease in other long-lived assets, and a $25.2 million decrease in long-term debt in our Consolidated Balance Sheet as of December 31, 2015 compared to the prior period presentation. Adoption had no impact on our results of operations.
Pending Adoption of Recent Accounting Pronouncements
In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which will replace 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. ASU 2014-09 will be effective for us beginning January 1, 2018, and allows for both retrospective and modified retrospective methods of adoption. Early adoption beginning January 1, 2017 is permitted. We are continuing the process of determining the method and timing of adoption and assessing the impact of ASU 2014-09 on our Consolidated Financial Statements. Our initial assessment indicates that the overall impact of adopting ASU 2014-09 is expected to be minimal. Any significant impact is expected to be limited to a software product line within our Broadcast segment that generates an immaterial amount of annual revenues.
In August 2014, the FASB issued disclosure guidance that requires us to evaluate, at each annual and interim period, whether substantial doubt exists about our ability to continue as a going concern, and if applicable, to provide related disclosures. The new guidance will be effective for us for our annual period ending December 31, 2016. This guidance is not currently expected to have a material effect on our financial statement disclosures upon adoption, although the ultimate impact will be dependent on our financial condition and expected operating outlook at such time.
In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (ASU 2016-02), a leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. 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. Early adoption is permitted. The standard requires the use of a modified retrospective transition method. We are evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.
In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which requires entities to recognize the income tax effects of stock awards in the income statement when the awards vest or are settled. Further, ASU 2016-09 allows entities to withhold up to the maximum individual statutory tax rate without classifying the stock awards as a liability and to account for forfeitures either upon occurrence or by estimating forfeitures. The new standard will be effective for us beginning January 1, 2017. Early adoption is permitted. We are evaluating the effect that ASU 2016-09 will have on our consolidated financial statements and related disclosures.

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. The new standard will be effective for us beginning January 1, 2017. Early adoption is permitted. We are evaluating the effect that ASU 2016-16 will have on our consolidated financial statements and related disclosures.

Note 2: Acquisitions

M2FX

We acquired 100% of the shares of M2FX Limited (M2FX) on January 7, 2016 for a preliminary purchase price of $18.9 million. Of the total purchase price, $3.3 million has been preliminarily deferred as estimated earn-out consideration. The estimated earn-out is scheduled to be paid in early 2017, if certain financial targets are achieved. We determined the estimated fair value of the earn-out with the assistance of a third party valuation specialist using a probability weighted discounted cash flow model. M2FX is a manufacturer of fiber optic cable and fiber protective solutions for broadband access and telecommunications networks. M2FX is located in the United Kingdom. The results of M2FX have been included in our Consolidated Financial Statements from January 7, 2016, and are reported within the Broadcast segment. The M2FX acquisition was not material to our financial position or results of operations.

Note 3: Operating Segments

We are organized around five global business platforms: Broadcast, Enterprise Connectivity, Industrial Connectivity, Industrial IT, and Network Security. Each of the global business platforms represents a reportable segment.

To capitalize on the adoption of IP technology and accelerate our penetration of the commercial audio-video market, we transferred responsibility of audio-video cable and connectors from our Broadcast platform to our Enterprise Connectivity platform effective January 1, 2016. We have revised the prior period segment information to conform to the change in the composition of these reportable segments. This transfer 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 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.

	Broadcast Solutions	Enterprise Connectivity Solutions	Industrial Connectivity Solutions	Industrial IT Solutions	Network Security Solutions	Total Segments
	(In thousands)					
As of and for the three months ended October 2, 2016						
Segment revenues	$196,173	$ 156,658	$ 149,847	$ 60,168	$ 39,622	$ 602,468
Affiliate revenues	46	1,587	511	13	—	2,157
Segment EBITDA	36,545	27,294	23,649	12,771	11,677	111,936
Depreciation expense	4,063	3,210	2,738	565	1,027	11,603
Amortization expense	10,955	431	604	1,501		