BELDEN INC.
Form 10-Q
May 10, 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 April 3, 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 May 5, 2016, the Registrant had 42,071,617 outstanding shares of common stock.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements
BELDEN INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	April 3, 2016 (Unaudited)	December 31, 2015
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 146,264	$ 216,751
Receivables, net	346,210	387,386
Inventories, net	215,947	195,942
Other current assets	44,489	37,079
Total current assets	752,910	837,158
Property, plant and equipment, less accumulated depreciation	316,435	310,629
Goodwill	1,406,058	1,385,115
Intangible assets, less accumulated amortization	642,939	655,871
Deferred income taxes	36,481	34,295
Other long-lived assets	68,772	67,534
	$ 3,223,595	$ 3,290,602
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 208,921	$ 223,514
Accrued liabilities	281,392	323,249
Current maturities of long-term debt	2,500	2,500
Total current liabilities	492,813	549,263
Long-term debt	1,689,664	1,725,282
Postretirement benefits	107,054	105,230
Deferred income taxes	49,341	46,034
Other long-term liabilities	45,416	39,270
Stockholders equity:		
Preferred stock	-	-
Common stock	503	503
Additional paid-in capital	606,591	605,660
Retained earnings	694,119	679,716
Accumulated other comprehensive loss	(60,705)	(58,987)
Treasury stock	(402,524)	(402,793)

Total Belden stockholders equity	837,984	824,099
Noncontrolling interest	1,323	1,424
Total stockholders equity	839,307	825,523
	$ 3,223,595	$ 3,290,602

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

BELDEN INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended	
	April 3, 2016	March 29, 2015
	(In thousands, except per share data)	
Revenues	$ 541,497	$ 546,957
Cost of sales	(316,462)	(339,308)
Gross profit	225,035	207,649
Selling, general and administrative expenses	(122,406)	(140,048)
Research and development	(36,133)	(36,199)
Amortization of intangibles	(25,532)	(26,504)
Operating income	40,964	4,898
Interest expense, net	(24,396)	(23,846)
Income (loss) before taxes	16,568	(18,948)
Income tax expense	(143)	(688)
Net income (loss)	16,425	(19,636)
Less: Net loss attributable to noncontrolling interest	(99)	-
Net income (loss) attributable to Belden stockholders	$ 16,524	$ (19,636)
Weighted average number of common shares and equivalents:		
Basic	42,008	42,535
Diluted	42,440	42,535
Basic income (loss) per share attributable to Belden stockholders	$ 0.39	$ (0.46)
Diluted income (loss) per share attributable to Belden stockholders	$ 0.39	$ (0.46)
Comprehensive income (loss) attributable to Belden stockholders	$ 14,806	$ (5,723)
Dividends declared per share	$ 0.05	$ 0.05

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

BELDEN INC.

CONDENSED CONSOLIDATED CASH FLOW STATEMENTS

(Unaudited)

	Three Months Ended	
	April 3, 2016	March 29, 2015
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 16,425	$ (19,636)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	37,195	38,045
Share-based compensation	4,100	5,006
Tax deficiency (benefit) related to share-based compensation	67	(3,690)
Changes in operating assets and liabilities, net of the effects of currency exchange rate changes and acquired businesses:		
Receivables	45,098	10,341
Inventories	(16,625)	(18,211)
Accounts payable	(17,187)	(34,562)
Accrued liabilities	(52,607)	(23,965)
Accrued taxes	(6,395)	(50)
Other assets	(1,226)	(2,406)
Other liabilities	3,834	923
Net cash provided by (used for) operating activities	12,679	(48,205)
Cash flows from investing activities:		
Cash used to acquire businesses, net of cash acquired	(15,348)	(695,345)
Capital expenditures	(13,431)	(15,456)
Proceeds from disposal of tangible assets	10	6
Net cash used for investing activities	(28,769)	(710,795)
Cash flows from financing activities:		
Payments under borrowing arrangements	(50,625)	-
Withholding tax payments for share-based payment awards, net of proceeds from the exercise of stock options	(2,833)	(10,842)
Cash dividends paid	(2,101)	(2,140)
Tax benefit (deficiency) related to share-based compensation	(67)	3,690
Borrowings under credit arrangements	-	200,000
Debt issuance costs paid	-	(622)
Net cash provided by (used for) financing activities	(55,626)	190,086
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,229	(5,548)
Decrease in cash and cash equivalents	(70,487)	(574,462)

Cash and cash equivalents, beginning of period		216,751		741,162
Cash and cash equivalents, end of period	$	146,264	$	166,700

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

BELDEN INC.

CONDENSED CONSOLIDATED STOCKHOLDERS EQUITY STATEMENT

THREE MONTHS ENDED APRIL 3, 2016

(Unaudited)

	Belden Inc. Stockholders								
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Tot
	Shares	Amount			Shares	Amount			
	(In thousands)								
t r 31,	50,335	$ 503	$ 605,660	$ 679,716	(8,354)	$ (402,793)	$ (58,987)	$ 1,424	$ 8
ne	-	-	-	16,524	-	-	-	(99)	
n, net illion	-	-	-	-	-	-	(2,185)	(2)	
ents to nd ment net of ion tax	-	-	-	-	-	-	467	-	
ensive of tax									
of ions, ng s	-	-	(49)	-	2	(14)	-	-	
on of stock stock,	-	-	(3,053)	-	77	283	-	-	

ng s										
sed ation	-	-	4,033	-	-	-	-	-		
s r	-	-	-	(2,121)	-	-	-	-		
t 016	50,335	$	503	$ 606,591	$ 694,119	(8,275)	$ (402,524)	$ (60,705)	$ 1,323	$ 8

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.

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 three months ended March 29, 2015 included 88 days.

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 months ended April 3, 2016 and March 29, 2015, 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 2). We did not have any transfers between Level 1 and Level 2 fair value measurements during the three months ended April 3, 2016 and March 29, 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. We did not have any significant cash equivalents as of April 3, 2016.

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 April 3, 2016, we were party to standby letters of credit, bank guaranties, and surety bonds totaling \$9.1 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 and maintenance or both support and maintenance 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 and maintenance, 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 and maintenance contracts is paid in advance and recognized ratably over the term of the service. Revenue allocated to subscription-based software and remote ongoing operational services is also 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.

Subsequent Events

We have evaluated subsequent events after the balance sheet date through the financial statement issuance date for appropriate accounting and disclosure.

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 in the process of determining the method and timing of adoption and assessing the impact of ASU 2014-09 on our Consolidated Financial Statements.

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.

Note 2: Acquisitions

M2FX

We acquired 100% of the shares of M2FX Limited (M2FX) on January 7, 2016 for a preliminary purchase price of $23.2 million. The purchase price less cash acquired was $22.9 million. Of the total purchase price, $7.6 million was accrued for the estimated earn out consideration as determined by a third party valuation specialist using certain assumptions in a discounted cash flow model. Thus, the total cash consideration paid on January 7, 2016 was $15.3 million. 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 April 3, 2016						
Segment revenues	$ 171,272	$ 135,892	$ 141,091	$ 53,882	$ 41,663	$ 543,800
Affiliate revenues	424	1,699	182	28	-	2,333
Segment EBITDA	23,267	23,736	22,987	8,609	11,467	90,066
Depreciation expense	3,962	3,389	2,718	524	1,070	11,663
Amortization of intangibles	12,931	429	591	1,510	10,071	25,532
Severance, restructuring, and acquisition integration costs	4,378	500	865	2,665	-	8,408
Purchase accounting effects of acquisitions	195	-	-	-	-	195
Deferred gross profit adjustments	614	-	-	-	1,689	2,303
Segment assets	332,009	233,422	248,971	59,528	45,923	919,853
As of and for the three months ended March 29, 2015						
Segment revenues	$ 176,500	$ 141,781	$ 152,972	$ 61,073	$ 37,125	$ 569,451
Affiliate revenues	102	1,870	323	21	8	2,324
Segment EBITDA	23,127	20,009	24,173	11,087	9,901	88,297
Depreciation expense	3,973	3,214	2,851	559	944	11,541
Amortization of intangibles	12,426	432	823	1,410	11,413	26,504
Severance, restructuring, and acquisition integration costs	11,527	568	1,773	(52)	667	14,483
Purchase accounting effects of acquisitions	-	-	267	-	9,155	9,422
Deferred gross profit adjustments	3,294	-	-	-	18,364	21,658
Segment assets	367,766	260,529	257,059	62,559	43,497	991,410

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

	Three Months Ended	
	April 3, 2016	March 29, 2015
	(In thousands)	
Total Segment Revenues	$ 543,800	$ 569,451
Deferred revenue adjustments (1)	(2,303)	(22,494)
Consolidated Revenues	$ 541,497	$ 546,957
Total Segment EBITDA	$ 90,066	$ 88,297
Amortization of intangibles	(25,532)	(26,504)
Deferred gross profit adjustments (1)	(2,303)	(21,658)
Severance, restructuring, and acquisition integration costs (2)	(8,408)	(14,483)
Depreciation expense	(11,663)	(11,541)
Purchase accounting effects related to acquisitions (3)	(195)	(9,422)
Income (loss) from equity method investment	(170)	768
Eliminations	(831)	(559)
Consolidated operating income	40,964	4,898
Interest expense, net	(24,396)	(23,846)
Consolidated income (loss) before taxes	$ 16,568	$ (18,948)

(1) Represents the negative impact of the adjustment of deferred revenue to fair value as required in purchase accounting for the acquisitions of Tripwire and Grass Valley.

(2) See Note 7, *Severance, Restructuring, and Acquisition Integration Activities,* for details.

(3) For the three months ended March 29, 2015, we recognized $9.2 million of compensation expense related to the accelerated vesting of acquiree stock based compensation awards associated with our acquisition of Tripwire. In both periods, we recognized cost of sales related to the adjustments of acquired inventory to fair value.

Note 4: Income per Share

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

	Three Months Ended	
	April 3, 2016	March 29, 2015
	(In thousands)	
Numerator:		
Net income (loss)	$ 16,425	$ (19,636)
Less: Net loss attributable to noncontrolling interest	(99)	-

Net income (loss) attributable to Belden stockholders	$ 16,524	$ (19,636)
Denominator:		
Weighted average shares outstanding, basic	42,008	42,535
Effect of dilutive common stock equivalents	432	-
Weighted average shares outstanding, diluted	42,440	42,535

For the three months ended April 3, 2016 and March 29, 2015, diluted weighted average shares outstanding do not include outstanding equity awards of 0.8 million and 0.9 million, respectively, because to do so would have been anti-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 5: Inventories

The major classes of inventories were as follows:

	April 3, 2016	December 31, 2015
	(In thousands)	
Raw materials	$ 98,819	$ 92,929
Work-in-process	28,097	27,730
Finished goods	111,612	97,814
Gross inventories	238,528	218,473
Excess and obsolete reserves	(22,581)	(22,531)
Net inventories	$ 215,947	$ 195,942

Note 6: Long-Lived Assets

<u>Depreciation and Amortization Expense</u>

We recognized depreciation expense of $11.7 million and $11.5 million in the three months ended April 3, 2016 and March 29, 2015, respectively.

We recognized amortization expense related to our intangible assets of $25.5 million and $26.5 million in the three months ended April 3, 2016 and March 29, 2015, respectively.

Note 7: Severance, Restructuring, and Acquisition Integration Activities

Industrial Restructuring Program

Both our Industrial Connectivity and Industrial IT segments have been negatively impacted by a decline in sales volume. Global demand for industrial products has been negatively impacted by the strengthened U.S. dollar and lower energy prices. Our customers have reduced capital spending in response to these conditions, and we expect these conditions to continue to negatively impact our industrial segments sales volume. In response to these current industrial market conditions, we began to execute a restructuring program in the fourth quarter of 2015 to further reduce our cost structure. We recognized $3.5 million of severance and other restructuring costs for this program during the three months ended April 3, 2016. We expect to incur approximately $5 million of additional severance and other restructuring costs for this program, the majority of which will be incurred in the second quarter of 2016. We expect the restructuring program to generate approximately $18 million of savings on an annualized basis, which we began to realize in the first quarter of 2016.

Grass Valley Restructuring Program

Our Broadcast segment s Grass Valley brand has been negatively impacted by a decline in global demand of broadcast technology infrastructure products. Outside of the U.S., demand for these products has been impacted by the relative price increase of products due to the strengthened U.S. dollar as well as the impact of weaker economic conditions which have resulted in lower capital spending. Within the U.S., demand for these products has been impacted by deferred capital spending. Also, we believe broadcast customers have deferred their capital spending as they navigate through a number of important industry transitions and a changing media landscape. In response to these current broadcast market conditions, we began to execute a restructuring program beginning in the third quarter of 2015 to further reduce our cost structure. We recognized $4.1 million of severance and other restructuring costs for this program during the three months ended April 3, 2016. We expect to incur approximately $2 million of additional severance and other restructuring costs for this program, the majority of which will be incurred in the second and third quarters of 2016. We expect the restructuring program to generate approximately $30 million of savings on an annualized basis, which we began to realize in the fourth quarter of 2015.

Productivity Improvement Program and Acquisition Integration

In 2014, we began a productivity improvement program and the integration of our acquisition of Grass Valley. The productivity improvement program focused on improving the productivity of our sales, marketing, finance, and human resources functions relative to our peers. The majority of the costs for the productivity improvement program related to the Industrial Connectivity, Enterprise, and Industrial IT segments. The restructuring and integration activities related to our acquisition of Grass Valley focused on achieving desired cost savings by consolidating existing and acquired operating facilities and other support functions. The Grass Valley costs relate to our Broadcast segment. We substantially completed the productivity improvement program and the acquisition integration activities in 2015. In the three months ended March 29, 2015, we recorded severance, restructuring, and integration costs of $14.5 million related to these two significant programs, as well as other cost reduction actions and the integration of our acquisitions of ProSoft, Coast, and Tripwire.

The following table summarizes the costs by segment of the various programs described above:

Three Months Ended April 3, 2016	**Severance**	**Other Restructuring and Integration Costs**	**Total Costs**
		(In thousands)	
Broadcast Solutions	$ (784)	$ 5,162	$ 4,378
Enterprise Connectivity Solutions	-	500	500
Industrial Connectivity Solutions	444	421	865
Industrial IT Solutions	1,882	783	2,665
Network Security Solutions	-	-	-
Total	$ 1,542	$ 6,866	$ 8,408
Three Months Ended March 29, 2015			
Broadcast Solutions	$ 2,303	$ 9,224	$ 11,527
Enterprise Connectivity Solutions	50	518	568
Industrial Connectivity Solutions	441	1,332	1,773
Industrial IT Solutions	(740)	688	(52)
Network Security Solutions	-	667	667
Total	$ 2,054	$ 12,429	$ 14,483

Of the total severance, restructuring, and acquisition integration costs recognized in the three months ended April 3, 2016, $2.2 million, $6.0 million, and $0.2 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 for the three months ended March 29, 2015, $1.4 million, $11.8 million, and $1.3 million were included in cost of sales; selling, general and administrative expenses; and research and development, respectively.

The other restructuring and integration costs primarily consisted of costs of integrating manufacturing operations, such as relocating inventory on a global basis, retention bonuses, relocation, travel, reserves for inventory obsolescence as a result of product line integration, costs to consolidate operating and support facilities, 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.

We continue to review our business strategies and evaluate potential new restructuring actions. This could result in additional restructuring costs in future periods.

Accrued Severance

The table below sets forth severance activity that occurred for the significant programs described above. The balances are included in accrued liabilities.

	Grass Valley Restructuring	Industrial Restructuring
	(In thousands)	
Balance at December 31, 2015	$ 12,085	$ 2,643
New charges	1,001	2,572
Cash payments	(4,116)	(1,424)
Foreign currency translation	118	92
Other adjustments	(2,266)	(144)
Balance at April 3, 2016	$ 6,822	$ 3,739

The other adjustments were the result of changes in estimates. We experienced higher than expected voluntary turnover, and as a result, certain approved severance actions were not taken. We expect the majority of the liabilities for these programs to be paid during the second and third quarters of 2016.

Note 8: Long-Term Debt and Other Borrowing Arrangements

The net carrying values of our long-term debt and other borrowing arrangements were as follows:

	April 3, 2016	December 31, 2015
	(In thousands)	
Revolving credit agreement due 2018	$ -	$ 50,000
Variable rate term loan due 2020	243,750	243,965
Senior subordinated notes:		
5.25% Senior subordinated notes due 2024	200,000	200,000
5.50% Senior subordinated notes due 2023	567,480	553,835
5.50% Senior subordinated notes due 2022	700,000	700,000
9.25% Senior subordinated notes due 2019	5,221	5,221
Total senior subordinated notes	1,472,701	1,459,056
Total gross debt and other borrowing arrangements	1,716,451	1,753,021
Less unamortized debt issuance costs	(24,287)	(25,239)

Total net debt and other borrowing arrangements	1,692,164	1,727,782
Less current maturities of Term Loan	(2,500)	(2,500)
Long-term debt	$ 1,689,664	$ 1,725,282

Revolving Credit Agreement due 2018

Our revolving credit agreement provides a $400 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, the Netherlands, and the UK. In January 2015, we borrowed $200.0 million under the Revolver in order to fund a portion of the purchase price for the acquisition of Tripwire. During the fourth quarter of 2015 and first quarter of 2016, we repaid $150.0 million and $50.0 million, respectively, of the Revolver borrowings. As of April 3, 2016, we had no borrowings outstanding on our revolver, and our available borrowing capacity was $296.0 million. The Revolver matures in 2018. 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 0.375%. In the event we borrow more than 90% of our borrowing base, we are subject to a fixed charge coverage ratio covenant.

Variable Rate Term Loan due 2020

In 2013, we borrowed $250.0 million under a Term Loan Credit Agreement (the Term Loan). The Term Loan is secured on a second lien basis by the assets securing the Revolving Credit Agreement due 2018 discussed above and on a first lien basis by the stock of certain of our subsidiaries. The borrowings under the Term Loan are scheduled to mature in 2020 and require quarterly amortization payments of approximately $0.6 million. Interest under the Term Loan is variable, based upon the three-month LIBOR plus an applicable spread. The interest rate as of April 3, 2016 was 3.25%. We paid approximately $3.9 million of fees associated with the Term Loan, which are being amortized over the life of the Term Loan using the effective interest method.

Senior Subordinated Notes

In June 2014, we issued $200.0 million aggregate principal amount of 5.25% senior subordinated notes due 2024 (the 2024 Notes). The 2024 Notes are guaranteed on a senior subordinated basis by certain of our subsidiaries. The 2024 Notes rank equal in right of payment with our senior subordinated notes due 2023, 2022, and 2019 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 Term Loan and Revolver. Interest is payable semiannually on January 15 and July 15 of each year. We paid approximately $4.2 million of fees associated with the issuance of the 2024 Notes, which are being amortized over the life of the 2024 Notes using the effective interest method. We used the net proceeds from the transaction for general corporate purposes.

In March 2013, we issued 300.0 million ($388.2 million at issuance) aggregate principal amount of 5.5% senior subordinated notes due 2023 (the 2023 Notes). In November 2014, we issued an additional 200.0 million ($247.5 million at issuance) aggregate principal amount of 2023 Notes. The carrying value of the 2023 Notes as of April 3, 2016 is $567.9 million. The 2023 Notes are guaranteed on a senior subordinated basis by certain of our subsidiaries. The notes rank equal in right of payment with our senior subordinated notes due 2024, 2022, and 2019 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 Term Loan and Revolver. Interest is payable semiannually on April 15 and October 15 of each year. We paid $12.7 million of fees associated with the issuance of the 2023 Notes, which are being amortized over the life of the notes using the effective interest method. We used the net proceeds from the transactions to repay amounts outstanding under the revolving credit component of our previously outstanding Senior Secured Facility and for general corporate purposes.

We have outstanding $700.0 million aggregate principal amount of 5.5% senior subordinated notes due 2022 (the 2022 Notes). The 2022 Notes are guaranteed on a senior subordinated basis by certain of our subsidiaries. The 2022 Notes rank equal in right of payment with our senior subordinated notes due 2024, 2023, and 2019, 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 Term Loan and Revolver. Interest is payable semiannually on March 1 and September 1 of each year.

We have outstanding $5.2 million aggregate principal amount of our senior subordinated notes due 2019 (the 2019 Notes). The 2019 Notes have a coupon interest rate of 9.25% and an effective interest rate of 9.75%. The interest on the 2019 Notes is payable semiannually on June 15 and December 15. The 2019 notes are guaranteed on a senior subordinated basis by certain of our subsidiaries. The notes rank equal in right of payment with our senior subordinated notes due 2024, 2023, and 2022, and with any future senior subordinated debt, and are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Term Loan and Revolver.

Fair Value of Long-Term Debt

The fair value of our senior subordinated notes as of April 3, 2016 was approximately $1,459.9 million based on quoted prices of the debt instruments in inactive markets (Level 2 valuation). This amount represents the fair values of our senior subordinated notes with a carrying value of $1,473.1 million as of April 3, 2016. We believe the fair value of our Term Loan approximates book value.

Note 9: Income Taxes

We recognized income tax expense of $0.1 million for the three months ended April 3, 2016, representing an effective tax rate of 0.9%. The minimal tax expense for the quarter stems from the reduction of a deferred tax valuation allowance primarily associated with net operating loss carryforwards in a foreign jurisdiction. The results of an analysis completed in the three months ended April 3, 2016, indicate the net operating loss carryforward will become partially realizable.

Note 10: Pension and Other Postretirement Obligations

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

	Pension Obligations		**Other Postretirement Obligations**	
Three Months Ended	**April 3, 2016**	**March 29, 2015**	**April 3, 2016**	**March 29, 2015**
	(In thousands)			
Service cost	$ 1,409	$ 1,784	$ 13	$ 16
Interest cost	2,394	2,540	368	403
Expected return on plan assets	(3,191)	(3,154)	-	-
Amortization of prior service credit	(9)	(11)	(11)	(25)
Actuarial losses	698	1,286	82	128