

TE Connectivity Ltd.  
Form 10-Q  
July 22, 2016

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 24, 2016

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**001-33260**  
(Commission File Number)

---

**TE CONNECTIVITY LTD.**

(Exact name of registrant as specified in its charter)

**Switzerland**  
(Jurisdiction of Incorporation)

**98-0518048**  
(I.R.S. Employer Identification No.)

**Rheinstrasse 20**  
**CH-8200 Schaffhausen, Switzerland**  
(Address of principal executive offices)

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

**+41 (0)52 633 66 61**

(Registrant's telephone number)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company

(Do not check if a  
smaller reporting company)

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

The number of common shares outstanding as of July 15, 2016 was 355,549,935.

---

Table of Contents

**TE CONNECTIVITY LTD.  
INDEX TO FORM 10-Q**

	<b>Page</b>
<b><u>Part I.</u></b>	
<b><u>Financial Information</u></b>	
<b><u>Item 1.</u></b>	
<b><u>Financial Statements</u></b>	<b><u>1</u></b>
<u>Condensed Consolidated Statements of Operations for the Quarters and Nine Months Ended June 24, 2016 and June 26, 2015 (Unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Quarters and Nine Months Ended June 24, 2016 and June 26, 2015 (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets as of June 24, 2016 and September 25, 2015 (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Equity for the Nine Months Ended June 24, 2016 and June 26, 2015 (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 24, 2016 and June 26, 2015 (Unaudited)</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>6</u>
<b><u>Item 2.</u></b>	<b><u>34</u></b>
<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	
<b><u>Item 3.</u></b>	<b><u>53</u></b>
<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	
<b><u>Item 4.</u></b>	<b><u>53</u></b>
<b><u>Controls and Procedures</u></b>	
<b><u>Part II.</u></b>	
<b><u>Other Information</u></b>	
<b><u>Item 1.</u></b>	<b><u>54</u></b>
<b><u>Legal Proceedings</u></b>	
<b><u>Item 1A.</u></b>	<b><u>54</u></b>
<b><u>Risk Factors</u></b>	
<b><u>Item 2.</u></b>	<b><u>54</u></b>
<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	
<b><u>Item 6.</u></b>	<b><u>55</u></b>
<b><u>Exhibits</u></b>	
<b><u>Signatures</u></b>	<b><u>56</u></b>

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TE CONNECTIVITY LTD.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions, except per share data)			
Net sales	\$ 3,121	\$ 3,118	\$ 8,906	\$ 9,249
Cost of sales	2,099	2,070	5,977	6,130
<b>Gross margin</b>	1,022	1,048	2,929	3,119
Selling, general, and administrative expenses	367	393	1,074	1,170
Research, development, and engineering expenses	161	159	479	479
Acquisition and integration costs	11	8	19	46
Restructuring and other charges (credits), net	31	19	(28)	82
<b>Operating income</b>	452	469	1,385	1,342
Interest income	2	4	12	13
Interest expense	(31)	(33)	(93)	(104)
Other income (expense), net	(651)	11	(631)	(64)
<b>Income (loss) from continuing operations before income taxes</b>	(228)	451	673	1,187
Income tax (expense) benefit	1,019	(100)	831	(85)
<b>Income from continuing operations</b>	791	351	1,504	1,102
Income (loss) from discontinued operations, net of income taxes	48	(42)	68	278
<b>Net income</b>	\$ 839	\$ 309	\$ 1,572	\$ 1,380
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ 2.22	\$ 0.86	\$ 4.08	\$ 2.71
Income (loss) from discontinued operations	0.13	(0.10)	0.18	0.68
Net income	2.35	0.76	4.26	3.39
<b>Diluted earnings per share:</b>				
Income from continuing operations	\$ 2.19	\$ 0.85	\$ 4.03	\$ 2.67
Income (loss) from discontinued operations	0.13	(0.10)	0.18	0.67
Net income	2.32	0.75	4.21	3.34
<b>Dividends paid per common share</b>	\$ 0.37	\$ 0.33	\$ 1.03	\$ 0.91
<b>Weighted-average number of shares outstanding:</b>				
Basic	357	406	369	407
Diluted	361	412	373	413

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

## TE CONNECTIVITY LTD.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
<b>Net income</b>	\$ 839	\$ 309	\$ 1,572	\$ 1,380
<b>Other comprehensive income (loss):</b>				
Currency translation	8	37	(84)	(388)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	12	10	26	29
Gains (losses) on cash flow hedges, net of income taxes	54	(4)	56	3
<b>Other comprehensive income (loss)</b>	74	43	(2)	(356)
<b>Comprehensive income</b>	\$ 913	\$ 352	\$ 1,570	\$ 1,024

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**TE CONNECTIVITY LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	June 24, 2016	September 25, 2015
	(in millions, except share data)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 694	\$ 3,329
Accounts receivable, net of allowance for doubtful accounts of \$16 and \$18, respectively	2,158	2,120
Inventories	1,610	1,615
Prepaid expenses and other current assets	467	476
Deferred income taxes		345
<b>Total current assets</b>	<b>4,929</b>	<b>7,885</b>
Property, plant, and equipment, net	2,976	2,920
Goodwill	5,251	4,824
Intangible assets, net	1,792	1,555
Deferred income taxes	2,208	2,144
Receivable from Tyco International plc and Covidien plc	11	964
Other assets	333	297
<b>Total Assets</b>	<b>\$ 17,500</b>	<b>\$ 20,589</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 302	\$ 498
Accounts payable	1,157	1,143
Accrued and other current liabilities	1,692	1,749
Deferred revenue	160	185
<b>Total current liabilities</b>	<b>3,311</b>	<b>3,575</b>
Long-term debt	3,734	3,386
Long-term pension and postretirement liabilities	1,334	1,327
Deferred income taxes	326	329
Income taxes	199	1,954
Other liabilities	331	433
<b>Total Liabilities</b>	<b>9,235</b>	<b>11,004</b>
Commitments and contingencies (Note 10)		
Shareholders' Equity:		
Common shares, CHF 0.57 par value, 382,835,381 shares authorized and issued, and 414,064,381 shares authorized and issued, respectively	168	182
Contributed surplus	1,786	4,359
Accumulated earnings	8,245	6,673
Treasury shares, at cost, 26,432,510 and 20,071,089 shares, respectively	(1,559)	(1,256)
Accumulated other comprehensive loss	(375)	(373)

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

<b>Total Shareholders' Equity</b>	8,265	9,585
<b>Total Liabilities and Shareholders' Equity</b>	\$ 17,500	\$ 20,589

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

**TE CONNECTIVITY LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
**(UNAUDITED)**

	Common Shares		Treasury Shares		Contributed Surplus	Accumulated Earnings	Accumulated Other Comprehensive Loss	TE Connectivity Ltd. Shareholders' Equity		Non-controlling Interests	Total Equity
	Shares	Amount	Shares	Amount				Equity	Equity		
	(in millions)										
<b>Balance at September 25, 2015</b>	414	\$ 182	(20)	\$ (1,256)	\$ 4,359	\$ 6,673	\$ (373)	\$ 9,585	\$	\$	\$ 9,585
Net income						1,572		1,572			1,572
Other comprehensive loss							(2)	(2)			(2)
Share-based compensation expense					67			67			67
Dividends approved					(514)			(514)			(514)
Exercise of share options			2	77				77			77
Restricted share award vestings and other activity			2	128	(134)			(6)			(6)
Repurchase of common shares			(41)	(2,514)				(2,514)			(2,514)
Cancellation of treasury shares	(31)	(14)	31	2,006	(1,992)						
<b>Balance at June 24, 2016</b>	383	\$ 168	(26)	\$ (1,559)	\$ 1,786	\$ 8,245	\$ (375)	\$ 8,265	\$	\$	\$ 8,265
<b>Balance at September 26, 2014</b>	419	\$ 184	(11)	\$ (644)	\$ 5,231	\$ 4,253	\$ (17)	\$ 9,007	\$ 6	\$	\$ 9,013
Net income						1,380		1,380			1,380
Other comprehensive loss							(356)	(356)			(356)
Share-based compensation expense					71			71			71
Dividends approved					(534)			(534)			(534)
Exercise of share options			3	97				97			97
Restricted share award vestings and other activity			1	127	(127)						
Repurchase of common shares			(8)	(536)				(536)			(536)
Cancellation of treasury shares	(5)	(2)	5	305	(303)						
<b>Balance at June 26, 2015</b>	414	\$ 182	(10)	\$ (651)	\$ 4,338	\$ 5,633	\$ (373)	\$ 9,129	\$ 6	\$	\$ 9,135

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**TE CONNECTIVITY LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>For the</b>	
	<b>Nine Months Ended</b>	
	<b>June 24,</b>	<b>June 26,</b>
	<b>2016</b>	<b>2015</b>
	<b>(in millions)</b>	
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 1,572	\$ 1,380
Income from discontinued operations, net of income taxes	(68)	(278)
Income from continuing operations	1,504	1,102
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	438	455
Non-cash restructuring charges	13	15
Deferred income taxes	162	(106)
Provision for losses on accounts receivable and inventories	27	35
Tax sharing expense	632	62
Share-based compensation expense	66	65
Gain on divestiture	(143)	
Other	71	59
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	15	(125)
Inventories	(2)	(218)
Prepaid expenses and other current assets	302	35
Accounts payable	(29)	(29)
Accrued and other current liabilities	(68)	(206)
Deferred revenue	(22)	4
Income taxes	(1,735)	(90)
Other	6	21
Net cash provided by continuing operating activities	1,237	1,079
Net cash provided by discontinued operating activities	1	210
Net cash provided by operating activities	1,238	1,289
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(420)	(425)
Proceeds from sale of property, plant, and equipment	3	10
Acquisition of businesses, net of cash acquired	(994)	(1,726)
Proceeds from divestiture of business, net of cash retained by sold business	326	
Other	28	(2)
Net cash used in continuing investing activities	(1,057)	(2,143)
Net cash used in discontinued investing activities		(22)
Net cash used in investing activities	(1,057)	(2,165)
<b>Cash Flows From Financing Activities:</b>		
Net increase (decrease) in commercial paper	300	(197)
Proceeds from issuance of long-term debt	350	617
Repayment of long-term debt	(500)	(473)

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Proceeds from exercise of share options	77	97
Repurchase of common shares	(2,657)	(511)
Payment of common share dividends to shareholders	(377)	(370)
Transfers from discontinued operations	1	188
Other	(5)	(2)
Net cash used in continuing financing activities	(2,811)	(651)
Net cash used in discontinued financing activities	(1)	(188)
Net cash used in financing activities	(2,812)	(839)
Effect of currency translation on cash	(4)	(41)
<b>Net decrease in cash and cash equivalents</b>	<b>(2,635)</b>	<b>(1,756)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3,329</b>	<b>2,457</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 694</b>	<b>\$ 701</b>

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**TE CONNECTIVITY LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Basis of Presentation**

The unaudited Condensed Consolidated Financial Statements of TE Connectivity Ltd. ("TE Connectivity" or the "Company," which may be referred to as "we," "us," or "our") have been prepared in United States ("U.S.") dollars, in accordance with accounting principles generally accepted in the U.S. ("GAAP") and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. In management's opinion, the unaudited Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire fiscal year or any subsequent interim period.

The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 25, 2015.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2016 and fiscal 2015 are to our fiscal years ending September 30, 2016 and September 25, 2015, respectively.

**2. Accounting Pronouncements**

***Recently Issued Accounting Pronouncement***

In March 2016, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standards Codification ("ASC") 718, *Compensation Stock Compensation*, to simplify various aspects of accounting for share-based payments to employees. This update is effective for us in the first quarter of fiscal 2018. We are currently assessing the impact that adoption will have on our Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASC 842, *Leases*, requiring lessees to recognize a lease liability and a right-of-use asset for most leases. This guidance is effective for us in the first quarter of fiscal 2020. We will adopt the new standard using a modified retrospective transition approach which requires application of the new guidance for all periods presented. We are currently assessing the impact that adoption will have on our financial position.

***Recently Adopted Accounting Pronouncements***

In November 2015, the FASB issued an update to ASC 740, *Income Taxes*, requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. This update is effective for us in the first quarter of fiscal 2018; however, we elected to early adopt this update on a prospective basis during the first quarter of fiscal 2016. Prior period amounts were not retrospectively adjusted.

In April 2015, the FASB issued an update to ASC 835, *Interest*, requiring that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This update is required to be applied on a retrospective basis and is effective for us in the first quarter of fiscal 2017. We elected to early adopt this update during the first quarter of fiscal 2016. Adoption did not have a material impact on the Condensed Consolidated Financial Statements.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****3. Restructuring and Other Charges (Credits), Net**

Net restructuring and other charges (credits) consisted of the following:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Restructuring charges, net	\$ 25	\$ 4	\$ 86	\$ 65
(Gain) loss on divestiture	3		(143)	
Other charges, net	3	15	29	17
	\$ 31	\$ 19	\$ (28)	\$ 82

**Restructuring Charges, Net**

Net restructuring charges by segment were as follows:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Transportation Solutions	\$ 20	\$ 1	\$ 39	\$ 3
Industrial Solutions	1	2	24	19
Communications Solutions	4	1	23	43
Restructuring charges, net	\$ 25	\$ 4	\$ 86	\$ 65

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 3. Restructuring and Other Charges (Credits), Net (Continued)

Activity in our restructuring reserves during the nine months ended June 24, 2016 is summarized as follows:

	Balance at September 25, 2015	Charges	Changes in Estimates	Cash Payments	Non-Cash Items and Other	Balance at June 24, 2016
(in millions)						
Fiscal 2016 Actions:						
Employee severance	\$	\$ 70	\$	\$ (19)	\$	\$ 51
Facility and other exit costs		4		(4)		
Property, plant, and equipment		13			(13)	
<b>Total</b>		<b>87</b>		<b>(23)</b>	<b>(13)</b>	<b>51</b>
Fiscal 2015 Actions:						
Employee severance	45	3	(1)	(28)	1	20
Facility and other exit costs	1			(1)		
<b>Total</b>	<b>46</b>	<b>3</b>	<b>(1)</b>	<b>(29)</b>	<b>1</b>	<b>20</b>
Pre-Fiscal 2015 Actions:						
Employee severance	24		(4)	(7)		13
Facility and other exit costs	14	1		(3)		12
<b>Total</b>	<b>38</b>	<b>1</b>	<b>(4)</b>	<b>(10)</b>		<b>25</b>
<b>Total Activity</b>	<b>\$ 84</b>	<b>\$ 91</b>	<b>\$ (5)</b>	<b>\$ (62)</b>	<b>\$ (12)</b>	<b>\$ 96</b>

***Fiscal 2016 Actions***

During fiscal 2016, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. In connection with this program, during the nine months ended June 24, 2016, we recorded restructuring charges of \$87 million. We expect to complete all restructuring actions commenced in the nine months ended June 24, 2016 by the end of fiscal 2019 and to incur total charges of approximately \$124 million with remaining charges related primarily to employee severance.

The following table summarizes expected, incurred, and remaining charges for the fiscal 2016 program by segment:

	Total Expected Charges	Charges Incurred For the Nine Months Ended June 24, 2016	Remaining Expected Charges
(in millions)			
Transportation Solutions	\$ 45	\$ 38	\$ 7
Industrial Solutions	27	24	3
Communications Solutions	52	25	27

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Total \$ 124 \$ 87 \$ 37

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****3. Restructuring and Other Charges (Credits), Net (Continued)***Fiscal 2015 Actions*

During fiscal 2015, we initiated a restructuring program associated with headcount reductions and product line closures, primarily impacting the Communications Solutions and Industrial Solutions segments. In connection with this program, during the nine months ended June 24, 2016 and June 26, 2015, we recorded restructuring charges of \$2 million and \$62 million, respectively. We do not expect to incur any additional charges related to fiscal 2015 actions.

*Pre-Fiscal 2015 Actions*

During fiscal 2014, we initiated a restructuring program associated primarily with headcount reductions and manufacturing site and product line closures in the Communications Solutions segment. During fiscal 2013, we initiated a restructuring program associated with headcount reductions and manufacturing site closures impacting all segments. During the nine months ended June 24, 2016 and June 26, 2015, we recorded restructuring credits of \$3 million and charges of \$3 million, respectively, related to pre-fiscal 2015 actions. We do not expect to incur any additional charges related to pre-fiscal 2015 actions.

*Total Restructuring Reserves*

Restructuring reserves included on the Condensed Consolidated Balance Sheets were as follows:

	June 24, 2016	September 25, 2015
	(in millions)	
Accrued and other current liabilities	\$ 69	\$ 60
Other liabilities	27	24
Restructuring reserves	\$ 96	\$ 84

**Gain on Divestiture**

During the second quarter of fiscal 2016, we sold our Circuit Protection Devices ("CPD") business for net cash proceeds of \$326 million, subject to working capital adjustments. We recognized a pre-tax gain of \$143 million on the transaction during the nine months ended June 24, 2016. The CPD business, which did not meet the discontinued operation reporting criteria, was reported in our Communications Solutions segment.

**Other Charges, Net**

During the nine months ended June 24, 2016 and June 26, 2015, we incurred costs of \$14 million and \$17 million, respectively, associated with the divestiture of certain businesses. Also, during the nine months ended June 24, 2016, we incurred charges of \$15 million related to the write-off of certain investments.



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****4. Discontinued Operations**

The following table presents certain components of income (loss) from discontinued operations, net of income taxes:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Net sales from discontinued operations	\$	\$ 471	\$	\$ 1,313
Pre-tax income (loss) from discontinued operations	\$	32	\$	(37)
Pre-tax gain on sale of discontinued operations		1		21
Income tax (expense) benefit		15		(5)
Income (loss) from discontinued operations, net of income taxes	\$	48	\$	(42)
			\$	68
				\$ 278

During the fourth quarter of fiscal 2015, we sold our Broadband Network Solutions ("BNS") business for \$3.0 billion in cash and recognized a pre-tax gain of \$1.1 billion on the transaction. During the nine months ended June 24, 2016, we recognized an additional pre-tax gain of \$21 million on the divestiture, related primarily to pension and net working capital adjustments.

The income tax benefit from discontinued operations for the nine months ended June 26, 2015 primarily reflects an income tax benefit related to the recognition of certain deferred tax assets that were expected to be realized upon the sale of the BNS business, partially offset by income tax expense related to the impacts of legal entity restructurings made in connection with the anticipated sale of the BNS business.

Pre-tax income (loss) from discontinued operations for the quarters ended June 24, 2016 and June 26, 2015 included pre-tax credits of \$30 million and charges of \$126 million, respectively, recorded in connection with the Com-Net case related to our former Wireless Systems business which was sold in fiscal 2009. See Note 10 for additional information regarding the Com-Net case.

The BNS and Wireless Systems businesses met the discontinued operations criteria and were reported as such in all periods presented on the Condensed Consolidated Financial Statements. Prior to reclassification to discontinued operations, the BNS and Wireless Systems businesses were included in the former Network Solutions and Wireless Systems segments, respectively.

**5. Acquisitions*****Fiscal 2016 Acquisitions***

During the first nine months of fiscal 2016, we acquired three businesses, including the Creganna Medical group, for a combined cash purchase price of \$994 million, net of cash acquired. The acquisitions have been reported in our Industrial Solutions and Transportation Solutions segments from the date of acquisition.

We have preliminarily allocated the purchase price of acquired businesses to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. We



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****5. Acquisitions (Continued)**

are in the process of completing the valuation of identifiable intangible assets, fixed assets, and pre-acquisition contingencies; therefore, the fair values set forth below are subject to adjustment upon finalization of the valuations. The amount of these potential adjustments could be significant. We expect to complete the purchase price allocation for fiscal 2016 acquisitions during fiscal 2017.

The following table summarizes the preliminary allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed for fiscal 2016 acquisitions at the date of acquisition, in accordance with the acquisition method of accounting:

	(in millions)
Cash and cash equivalents	\$ 50
Other current assets	90
Goodwill	595
Intangible assets	402
Other non-current assets	49
 Total assets acquired	 1,186
 Current liabilities	 35
Non-current deferred income taxes	87
Other non-current liabilities	20
 Total liabilities assumed	 142
 Net assets acquired	 1,044
Cash and cash equivalents acquired	(50)
 Net cash paid	 \$ 994

The fair values assigned to intangible assets were preliminarily determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earnings methods. Both valuation methods rely on management judgment, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. The valuation of tangible assets was derived using a combination of the income, market, and cost approaches. Significant judgments used in valuing tangible assets include estimated reproduction or replacement cost, useful lives of assets, estimated selling prices, costs to complete, and reasonable profit. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****5. Acquisitions (Continued)**

Acquired intangible assets consisted of the following:

	Amount (in millions)	Weighted-Average Amortization Period (in years)
Customer relationships	\$ 180	20
Developed technology	162	11
Trade names and trademarks	45	22
Customer order backlog	15	3
<b>Total</b>	<b>\$ 402</b>	<b>16</b>

The acquired intangible assets are being amortized on a straight-line basis over their expected useful lives.

Goodwill of \$595 million was recognized in fiscal 2016 transactions, representing the excess of the purchase price over the fair value of the tangible and intangible assets acquired and liabilities assumed. This goodwill is attributable primarily to cost savings and other synergies related to operational efficiencies including the consolidation of manufacturing, marketing, and general and administrative functions. The goodwill has been allocated to the Industrial Solutions and Transportation Solutions segments and is not deductible for tax purposes. However, prior to being acquired by us, one of the fiscal 2016 acquisitions completed certain acquisitions that resulted in goodwill with an estimated value of \$15 million that is deductible primarily for U.S. tax purposes, which we will deduct through 2025.

For the quarter ended June 24, 2016, the fiscal 2016 acquisitions contributed net sales of \$73 million and an operating loss of \$2 million to our Condensed Consolidated Statement of Operations. The operating loss included \$7 million of acquisition costs, \$5 million associated with the amortization of acquisition-related fair value adjustments related to acquired inventories and customer order backlog, and \$1 million of integration costs.

From the respective dates of acquisition through June 24, 2016, the fiscal 2016 acquisitions contributed net sales of \$73 million and an operating loss of \$3 million to our Condensed Consolidated Statement of Operations. The operating loss included \$8 million of acquisition costs, \$5 million associated with the amortization of acquisition-related fair value adjustments related to acquired inventories and customer order backlog, and \$1 million of integration costs.

***Fiscal 2015 Acquisitions***

On October 9, 2014, we acquired 100% of the outstanding shares of Measurement Specialties, Inc. ("Measurement Specialties"), a leading global designer and manufacturer of sensors and sensor-based systems, for \$86.00 in cash per share. The total value paid was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. This business has been reported as part of our Transportation Solutions segment from the date of acquisition.

During the first nine months of fiscal 2015, we also purchased three additional businesses for \$242 million in cash, net of cash acquired.

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 5. Acquisitions (Continued)

*Pro Forma Financial Information*

The following unaudited pro forma financial information reflects our consolidated results of operations had the fiscal 2016 acquisitions occurred at the beginning of fiscal 2015 and the Measurement Specialties acquisition occurred at the beginning of fiscal 2014:

	Pro Forma for the Quarters Ended		Pro Forma for the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions, except per share data)			
Net sales	\$ 3,128	\$ 3,191	\$ 9,065	\$ 9,480
Net income	839	304	1,584	1,395
Diluted earnings per share	\$ 2.32	\$ 0.74	\$ 4.25	\$ 3.38

The pro forma financial information for the 2016 acquisitions is based on our preliminary allocation of the purchase price and therefore is subject to adjustment upon finalization of the purchase price allocation. The pro forma adjustments described below are net of income tax expense (benefit) at the statutory rate.

Pro forma results for the quarter ended June 24, 2016 were adjusted to exclude \$4 million of acquisition costs and \$1 million of interest expense based on pro forma changes in our combined capital structure. In addition, pro forma results for the quarter ended June 24, 2016 were adjusted to include \$4 million of charges related to the amortization of the fair value of acquired intangible assets and \$1 million of charges related to acquired customer order backlog.

Pro forma results for the quarter ended June 26, 2015 were adjusted to exclude \$5 million of interest expense based on pro forma changes in our combined capital structure and \$1 million of income tax expense based on the estimated impact of combining Measurement Specialties and the fiscal 2016 transactions into our global tax position. In addition, pro forma results for the quarter ended June 26, 2015 were adjusted to include \$3 million of charges related to the amortization of the fair value of acquired intangible assets and \$1 million of charges related to acquired customer order backlog.

Pro forma results for the nine months ended June 24, 2016 were adjusted to exclude \$15 million of interest expense based on pro forma changes in our combined capital structure, \$5 million of acquisition costs, and \$3 million of charges related to the fair value adjustment to acquisition date inventories. In addition, pro forma results for the nine months ended June 24, 2016 were adjusted to include \$9 million of charges related to the amortization of the fair value of acquired intangible assets and \$2 million of charges related to acquired customer order backlog.

Pro forma results for the nine months ended June 26, 2015 were adjusted to exclude \$24 million of acquisition costs, \$15 million of share-based compensation expense incurred by Measurement Specialties as a result of the change in control of Measurement Specialties, \$15 million of interest expense based on pro forma changes in our combined capital structure, \$8 million of charges related to the fair value adjustment to acquisition-date inventories, \$5 million of charges related to acquired customer order backlog, and \$5 million of income tax expense based on the estimated impact of combining Measurement Specialties and the fiscal 2016 transactions into our global tax position. In

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****5. Acquisitions (Continued)**

addition, pro forma results for the nine months ended June 26, 2015 were adjusted to include \$11 million of charges related to the amortization of the fair value of acquired intangible assets.

Pro forma results do not include any anticipated synergies or other anticipated benefits of these acquisitions. Accordingly, the unaudited pro forma financial information is not necessarily indicative of either future results of operations or results that might have been achieved had these acquisitions occurred at the beginning of the preceding fiscal years.

**6. Inventories**

Inventories consisted of the following:

	June 24, 2016	September 25, 2015
	(in millions)	
Raw materials	\$ 247	\$ 261
Work in progress	610	581
Finished goods	753	773
Inventories	\$ 1,610	\$ 1,615

**7. Goodwill**

The changes in the carrying amount of goodwill by segment were as follows:

	Transportation Solutions	Industrial Solutions	Communications Solutions	Total
	(in millions)			
September 25, 2015 <sup>(1)</sup>	\$ 1,863	\$ 2,253	\$ 708	\$ 4,824
Acquisitions	63	532		595
Divestiture of business			(117)	(117)
Currency translation	(20)	(24)	(7)	(51)
June 24, 2016 <sup>(1)</sup>	\$ 1,906	\$ 2,761	\$ 584	\$ 5,251

(1)

At June 24, 2016 and September 25, 2015, accumulated impairment losses for the Transportation Solutions and Industrial Solutions segments were \$2,191 million and \$669 million, respectively. Accumulated impairment losses for the Communications Solutions segment were \$1,514 million and \$1,626 million at June 24, 2016 and September 25, 2015, respectively.

During the first nine months of fiscal 2016, we acquired three businesses and recognized goodwill of \$595 million which benefited the Industrial Solutions and Transportation Solutions segments. See Note 5 for additional information.

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

During the first nine months of fiscal 2016, net goodwill of \$117 million was written-off in connection with the sale of our CPD business. See Note 3 for additional information.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****8. Intangible Assets, Net**

Intangible assets consisted of the following:

	June 24, 2016			September 25, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Intellectual property	\$ 1,292	\$ (541)	\$ 751	\$ 1,150	\$ (524)	\$ 626
Customer relationships	1,212	(192)	1,020	1,053	(148)	905
Other	34	(13)	21	37	(13)	24
Total	\$ 2,538	\$ (746)	\$ 1,792	\$ 2,240	\$ (685)	\$ 1,555

During the first nine months of fiscal 2016, the gross carrying amount of intangible assets increased by \$402 million as a result of the acquisition of three businesses. See Note 5 for additional information.

Intangible asset amortization expense was \$40 million and \$37 million for the quarters ended June 24, 2016 and June 26, 2015, respectively, and \$108 million and \$117 million for the nine months ended June 24, 2016 and June 26, 2015, respectively.

The aggregate amortization expense on intangible assets is expected to be as follows:

	(in millions)
Remainder of fiscal 2016	\$ 41
Fiscal 2017	163
Fiscal 2018	163
Fiscal 2019	159
Fiscal 2020	152
Fiscal 2021	149
Thereafter	965
Total	\$ 1,792

**9. Debt**

During January 2016, Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, issued \$350 million aggregate principal amount of 3.700% senior notes due February 15, 2026. The notes are TEGSA's unsecured senior obligations and rank equally in right of payment with all existing and any future senior indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur. The notes are fully and unconditionally guaranteed as to payment on an unsecured basis by TE Connectivity Ltd.

During January 2016, TEGSA repaid, at maturity, \$500 million senior floating rate notes due 2016.

TEGSA has a five-year unsecured senior revolving credit facility ("Credit Facility") with total commitments of \$1,500 million. The Credit Facility was amended in December 2015 primarily to extend





Table of Contents

**TE CONNECTIVITY LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**9. Debt (Continued)**

the maturity date from August 2018 to December 2020. TEGSA had no borrowings under the Credit Facility at June 24, 2016 and September 25, 2015.

Borrowings under the Credit Facility bear interest at a rate per annum equal to, at the option of TEGSA, (1) London interbank offered rate ("LIBOR") plus an applicable margin based upon the senior, unsecured, long-term debt rating of TEGSA, or (2) an alternate base rate equal to the highest of (i) Bank of America, N.A.'s base rate, (ii) the federal funds effective rate plus  $\frac{1}{2}$  of 1%, and (iii) one-month LIBOR plus 1%, plus, in each case, an applicable margin based upon the senior, unsecured, long-term debt rating of TEGSA. TEGSA is required to pay an annual facility fee ranging from 5.0 to 12.5 basis points based upon the amount of the lenders' commitments under the Credit Facility and the applicable credit ratings of TEGSA.

As of June 24, 2016, TEGSA had \$300 million of commercial paper outstanding at a weighted-average interest rate of 0.70%. TEGSA had no commercial paper outstanding at September 25, 2015.

The fair value of our debt, based on indicative valuations, was approximately \$4,375 million and \$4,115 million at June 24, 2016 and September 25, 2015, respectively.

**10. Commitments and Contingencies**

**Legal Proceedings**

In the normal course of business, we are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, employment disputes, disputes on agreements, other commercial disputes, environmental matters, antitrust claims, and tax matters, including non-income tax matters such as value added tax, sales and use tax, real estate tax, and transfer tax. Although it is not feasible to predict the outcome of these proceedings, based upon our experience, current information, and applicable law, we do not expect that the outcome of these proceedings, either individually or in the aggregate, will have a material effect on our results of operations, financial position, or cash flows.

As previously reported, we had a contingent purchase price commitment of \$80 million related to our fiscal 2001 acquisition of Com-Net. This represented the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system was completed for and approved by the State of Florida in accordance with guidelines set forth in the contract. Under the terms of the purchase and sale agreement, we did not believe we had any obligation to the sellers. However, the sellers contested our position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania. Trial began in March 2015 and culminated in the entry of final judgment on October 8, 2015, in favor of the sellers and against us for \$127 million plus costs. The judgment represented the \$80 million contingent purchase price plus pre-judgment interest. In July 2016, we entered into settlement agreements with the sellers pursuant to which we agreed to pay the sellers an aggregate amount of \$96 million settling all matters in dispute. Payment of this amount was made during July 2016. In connection with the settlements, during the quarter ended June 24, 2016, we recorded pre-tax credits of \$30 million, representing a reduction in related reserves. This amount is reflected in income (loss) from discontinued operations on the Condensed Consolidated Statement of Operations as the Com-Net case was associated with our former Wireless Systems business which was sold in 2009.

Table of Contents

**TE CONNECTIVITY LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**10. Commitments and Contingencies (Continued)**

**Income Tax Matters**

***Tax Sharing Agreement***

Effective June 29, 2007, we became the parent company of the former electronics businesses of Tyco International plc ("Tyco International"). On June 29, 2007, Tyco International distributed all of our shares, as well as its shares of its former healthcare businesses ("Covidien"), to its common shareholders (the "separation"). Covidien was subsequently acquired and currently operates as a subsidiary of Medtronic plc.

Upon separation, we entered into a Tax Sharing Agreement, under which we shared responsibility for certain of our, Tyco International's, and Covidien's income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. We, Tyco International, and Covidien shared 31%, 27%, and 42%, respectively, of U.S. income tax liabilities that arose from adjustments made by tax authorities to our, Tyco International's, and Covidien's U.S. income tax returns. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien.

***1997-2000 Audit Years***

In October 2012, the Internal Revenue Service ("IRS") issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the years 1997 through 2000, excluding one issue involving the tax treatment of certain intercompany debt transactions. The IRS field examination asserted that certain intercompany loans originated during the years 1997 through 2000 did not constitute debt for U.S. federal income tax purposes and disallowed approximately \$2.7 billion of related interest deductions recognized during the period on Tyco International's U.S. income tax returns. In addition, if the IRS were ultimately successful in asserting its claim, it likely would have disallowed an additional \$6.6 billion of interest deductions reflected on U.S. income tax returns in years subsequent to fiscal 2000. Tyco International disagreed with the IRS position and filed petitions in the U.S. Tax Court contesting the IRS's proposed adjustments.

On January 15, 2016, Tyco International entered into Stipulations of Settled Issues (the "Stipulations") with the IRS intended to resolve all disputes related to the intercompany debt matter discussed above. The Stipulations were contingent upon the Appeals Division of the IRS applying the same settlement or framework to all intercompany debt issues on appeal for subsequent audit cycles (years 2001 through 2007).

During the second quarter of fiscal 2016, we made a pre-payment to the IRS of \$443 million, for deficiencies for which we are the primary obligor, to stop the accretion of deficiency interest. Concurrent with remitting this payment, we were reimbursed \$305 million by Tyco International and Covidien pursuant to their indemnifications for pre-separation tax matters. In addition, we paid \$2 million to Covidien for our share of deficiencies for which Covidien was the primary obligor. As a result, our net cash payment was \$140 million during the second quarter of fiscal 2016, representing our share of the total amount payable to the IRS in connection with the disputed debt matter.

On May 17, 2016, the Appeals Division of the IRS issued special agreement Forms 870-AD that effectively settled the matters on appeal on the same terms as those set forth in the Stipulations, and on May 31, 2016, the U.S. Tax Court entered orders consistent with the Stipulations and dismissed the

Table of Contents

**TE CONNECTIVITY LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**10. Commitments and Contingencies (Continued)**

petitions as settled. As a result, we have resolved all aspects of the disputed debt matter before the U.S. Tax Court (for the 1997 through 2000 audit cycle) and before the Appeals Division of the IRS for subsequent audit cycles (2001 through 2007). In addition, we expect the terms of the resolution for the disputed debt matter will be consistently applied by the IRS to all of our U.S. income tax returns filed subsequent to fiscal 2007.

As a result of these events, in the third quarter of fiscal 2016, we recognized an income tax benefit of \$1,135 million, representing a reduction in tax reserves, and other expense of \$604 million, representing a reduction of associated indemnification receivables, pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The U.S. tax loss and credit carryforwards finalized as a result of the settlement of the disputed debt matter were assessed for realizability in the third quarter of fiscal 2016 and included in our valuation allowance analysis. See Note 13 for further information regarding the valuation allowance for deferred tax assets.

***2001-2007 Audit Years***

In the first quarter of fiscal 2015, the IRS issued general agreement Forms 870, effectively settling its audits of tax matters for the years 2001 through 2007, excluding the disputed debt matter which was subsequently resolved during the third quarter of fiscal 2016. As a result of these developments, in the nine months ended June 26, 2015, we recognized an income tax benefit of \$202 million, representing a reduction in tax reserves for the matters that were effectively settled, and other expense of \$89 million, representing a reduction of associated indemnification receivables, pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

***2008-2010 Audit Years***

In the fourth quarter of fiscal 2015, the IRS issued general agreement Forms 870, effectively settling its audits of tax matters for the years 2008 through 2010, excluding the disputed debt matter. As discussed above, we expect the terms of the resolution for the disputed debt matter will be consistently applied by the IRS to all of our U.S. income tax returns filed subsequent to fiscal 2007.

**Environmental Matters**

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of June 24, 2016, we concluded that it was probable that we would incur remedial costs in the range of \$16 million to \$43 million, and that the best estimate within this range was \$19 million. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

**Guarantees**

In disposing of assets or businesses, we often provide representations, warranties, and/or indemnities to cover various risks including unknown damage to assets, environmental risks involved in the sale of real estate, liability for investigation and remediation of environmental contamination at

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****10. Commitments and Contingencies (Continued)**

waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not expect that these uncertainties will have a material adverse effect on our results of operations, financial position, or cash flows.

At June 24, 2016, we had outstanding letters of credit, letters of guarantee, and surety and appeal bonds of \$490 million.

In the normal course of business, we are liable for contract completion and product performance. In the opinion of management, such obligations will not significantly affect our results of operations, financial position, or cash flows.

We generally record estimated product warranty costs when contract revenues are recognized under the percentage-of-completion method for construction related contracts; other warranty reserves are not significant. The estimation is based primarily on historical experience and actual warranty claims. Amounts accrued for warranty claims were \$43 million and \$35 million at June 24, 2016 and September 25, 2015, respectively.

**11. Financial Instruments**

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was \$3,870 million and \$3,880 million at June 24, 2016 and September 25, 2015, respectively. We recorded foreign exchange gains of \$5 million and foreign exchange losses of \$53 million in the quarters ended June 24, 2016 and June 26, 2015, respectively, and foreign exchange gains of \$6 million and \$359 million in the nine months ended June 24, 2016 and June 26, 2015, respectively. These foreign exchange gains and losses were recorded as currency translation, a component of accumulated other comprehensive loss, offsetting foreign exchange losses and gains attributable to the translation of the net investment.

**12. Retirement Plans**

The net periodic pension benefit cost for all U.S. and non-U.S. defined benefit pension plans was as follows:

	U.S. Plans		Non-U.S. Plans	
	For the		For the	
	Quarters Ended		Quarters Ended	
	June 24,	June 26,	June 24,	June 26,
	2016	2015	2016	2015
	(in millions)			
Service cost	\$ 3	\$ 2	\$ 11	\$ 12
Interest cost	12	12	13	15
Expected return on plan assets	(15)	(17)	(17)	(19)
Amortization of net actuarial loss	10	6	9	9
Amortization of prior service credit			(1)	(1)
Net periodic pension benefit cost	\$ 10	\$ 3	\$ 15	\$ 16

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****12. Retirement Plans (Continued)**

	U.S. Plans		Non-U.S. Plans	
	For the		For the	
	Nine Months Ended		Nine Months Ended	
	June 24,	June 26,	June 24,	June 26,
	2016	2015	2016	2015
	(in millions)			
Service cost	\$ 7	\$ 7	\$ 35	\$ 37
Interest cost	37	36	40	46
Expected return on plan assets	(44)	(51)	(52)	(57)
Amortization of net actuarial loss	30	19	27	27
Amortization of prior service credit			(4)	(4)
Net periodic pension benefit cost	\$ 30	\$ 11	\$ 46	\$ 49

During the nine months ended June 24, 2016, we contributed \$49 million to our non-U.S. pension plans.

**13. Income Taxes**

We recorded an income tax benefit of \$1,019 million and income tax expense of \$100 million for the quarters ended June 24, 2016 and June 26, 2015, respectively. For the nine months ended June 24, 2016 and June 26, 2015, we recorded an income tax benefit of \$831 million and income tax expense of \$85 million, respectively.

The tax benefit for the quarter and nine months ended June 24, 2016 included a \$1,135 million income tax benefit related to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007, partially offset by a \$91 million increase to the valuation allowance for deferred tax assets. Additionally, the tax benefit for the quarter and nine months ended June 24, 2016 included an \$83 million net income tax benefit related to tax settlements in certain other tax jurisdictions, partially offset by an income tax charge related to certain legal entity restructurings. See Note 10 for additional information regarding settlements with the IRS.

The increase to the valuation allowance for deferred tax assets primarily relates to certain U.S. federal and state tax loss and credit carryforwards. Based on our forecast of future taxable income for certain U.S. tax reporting groups, U.S. tax loss and credit carryforwards finalized as a result of settlement of the disputed debt matter with the IRS, and certain tax planning actions and strategies, we believe it is more likely than not that a portion of our deferred tax assets will not be realized.

The tax expense for the nine months ended June 26, 2015 included a \$202 million income tax benefit related to the effective settlement of undisputed tax matters for the years 2001 through 2007. The tax expense for the nine months ended June 26, 2015 also included an income tax benefit related to the impacts of certain non-U.S. tax law changes and the associated reduction in the valuation allowance for tax loss carryforwards, partially offset by an income tax charge for the estimated tax impacts of certain intercompany dividends related to the restructuring and anticipated sale of the BNS business.

Table of Contents

**TE CONNECTIVITY LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**13. Income Taxes (Continued)**

We record accrued interest as well as penalties related to uncertain tax positions as part of income tax expense (benefit). As of June 24, 2016 and September 25, 2015, we had recorded \$64 million and \$1,076 million, respectively, of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheets, recorded primarily in income taxes. The decrease in the accrued interest and penalties from fiscal year end 2015 was due primarily to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007. During the nine months ended June 24, 2016, we recognized \$766 million of income tax benefit related to interest and penalties on the Condensed Consolidated Statement of Operations.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that up to approximately \$105 million of unrecognized income tax benefits, excluding the impact relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Condensed Consolidated Balance Sheet as of June 24, 2016.

**14. Other Income (Expense), Net**

During the quarters ended June 24, 2016 and June 26, 2015, we recorded net other expense of \$651 million and net other income of \$11 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net other expense for the quarter ended June 24, 2016 included \$604 million related to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007 and \$46 million related to a tax settlement in another jurisdiction.

During the nine months ended June 24, 2016 and June 26, 2015, we recorded net other expense of \$631 million and \$64 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net other expense for the nine months ended June 24, 2016 included \$604 million related to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007 and \$46 million related to a tax settlement in another jurisdiction. The net other expense for the nine months ended June 26, 2015 included \$89 million related to the effective settlement of undisputed tax matters for the years 2001 through 2007.

See Note 10 for further information regarding the Tax Sharing Agreement and settlements with the IRS.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****15. Earnings Per Share**

The weighted-average number of shares outstanding used in the computations of basic and diluted earnings per share were as follows:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Basic	357	406	369	407
Dilutive impact of share-based compensation arrangements	4	6	4	6
Diluted	361	412	373	413

The following share options were not included in the computation of diluted earnings per share because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Antidilutive share options	3		3	1

**16. Equity*****Common Shares***

In March 2016, our shareholders approved our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles of association, in aggregate not exceeding 50% of the amount of our authorized shares. The authorization will remain in effect for a period of two years ending on March 2, 2018.

***Common Shares Held in Treasury***

In March 2016, our shareholders approved the cancellation of 31 million shares purchased under our share repurchase program during the period from December 27, 2014 to December 10, 2015. The capital reduction by cancellation of these shares was subject to a notice period and filing with the commercial register in Switzerland and became effective in May 2016.

***Dividends***

In March 2016, our shareholders approved a dividend payment to shareholders of \$1.48 (equivalent to CHF 1.48) per share out of contributed surplus, payable in four equal quarterly installments beginning in the third quarter of fiscal 2016 through the second quarter of fiscal 2017. We paid the first installment of the dividend at a rate of \$0.37 per share in the third quarter of fiscal 2016.



Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

**16. Equity (Continued)**

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to contributed surplus. At June 24, 2016 and September 25, 2015, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled \$396 million and \$260 million, respectively.

**Share Repurchase Program**

In the second quarter of fiscal 2016, our board of directors authorized an increase of \$1.0 billion in the share repurchase program. Common shares repurchased under the share repurchase program were as follows:

	For the Nine Months Ended	
	June 24, 2016	June 26, 2015
	(in millions)	
Number of common shares repurchased	41	8
Amount repurchased	\$ 2,514	\$ 536

At June 24, 2016, we had \$1.2 billion of availability remaining under our share repurchase authorization.

**17. Share Plans**

Total share-based compensation expense, which was included primarily in selling, general, and administrative expenses on the Condensed Consolidated Statements of Operations, was as follows:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Share-based compensation expense	\$ 23	\$ 21	\$ 66	\$ 65

As of June 24, 2016, there was \$149 million of unrecognized compensation expense related to share-based awards, which is expected to be recognized over a weighted-average period of 1.8 years.

During the first quarter of fiscal 2016, we granted the following equity awards as part of our annual incentive plan grant:

Shares (in millions)	Weighted-Average Grant-Date Fair Value	
	Shares	Fair Value
Share options	1.8	\$ 14.37
Restricted share awards	0.7	65.95
Performance share awards	0.3	65.95

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

**17. Share Plans (Continued)**

As of June 24, 2016, we had 16 million shares available for issuance under our stock and incentive plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, as amended and restated, was the primary plan.

***Share-Based Compensation Assumptions***

The weighted-average assumptions we used in the Black-Scholes-Merton option pricing model for the options granted as part of our annual incentive plan grant were as follows:

Expected share price volatility	26%
Risk free interest rate	2.01%
Expected annual dividend per share	\$ 1.32
Expected life of options (in years)	5.7

**18. Segment Data**

Net sales by segment were as follows:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Transportation Solutions	\$ 1,652	\$ 1,621	\$ 4,767	\$ 4,843
Industrial Solutions	849	806	2,296	2,387
Communications Solutions	620	691	1,843	2,019
Total <sup>(1)</sup>	\$ 3,121	\$ 3,118	\$ 8,906	\$ 9,249

(1) Intersegment sales were not material and were recorded at selling prices that approximated market prices.

Operating income by segment was as follows:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Transportation Solutions	\$ 297	\$ 303	\$ 847	\$ 921
Industrial Solutions	95	98	224	268
Communications Solutions	60	68	314 <sup>(1)</sup>	153
Total	\$ 452	\$ 469	\$ 1,385	\$ 1,342

- (1) Includes pre-tax gain of \$143 million on the sale of our CPD business during the first nine months of fiscal 2016.

Table of Contents

**TE CONNECTIVITY LTD.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

**19. Subsequent Event**

On July 14, 2016, we entered into a share purchase agreement to acquire Intercontec Group, a global designer and manufacturer of high performance industrial connectors, through the purchase of 100% of equity and repayment of certain debt, for an aggregate cash transaction value of €305 million (equivalent to approximately \$340 million), subject to a post-closing adjustment. The transaction is expected to close in the fourth quarter of fiscal 2016, pending customary closing conditions and regulatory approvals. This business will be reported as part of our Industrial Solutions segment.

**20. Tyco Electronics Group S.A.**

Tyco Electronics Group S.A. ("TEGSA"), a Luxembourg company and our 100%-owned subsidiary, is a holding company that owns, directly or indirectly, all of our operating subsidiaries. TEGSA is the obligor under our senior notes, commercial paper, and Credit Facility, which are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd. The following tables present condensed consolidating financial information for TE Connectivity Ltd., TEGSA, and all other subsidiaries that are not providing a guarantee of debt but which represent assets of TEGSA, using the equity method of accounting.

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)  
For the Quarter Ended June 24, 2016

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
	(in millions)				
Net sales	\$	\$	\$ 3,121	\$	\$ 3,121
Cost of sales			2,099		2,099
<b>Gross margin</b>			1,022		1,022
Selling, general, and administrative expenses	50	(2)	319		367
Research, development, and engineering expenses			161		161
Acquisition and integration costs	1		10		11
Restructuring and other charges (credits), net	2	(1)	30		31
<b>Operating income (loss)</b>	(53)	3	502		452
Interest income			2		2
Interest expense		(31)			(31)
Other expense, net			(651)		(651)
Equity in net income of subsidiaries	852	847		(1,699)	
Equity in net income of subsidiaries of discontinued operations	47	47		(94)	
Intercompany interest income (expense), net	(8)	33	(25)		
<b>Income (loss) from continuing operations before income taxes</b>	838	899	(172)	(1,793)	(228)
Income tax benefit			1,019		1,019
<b>Income from continuing operations</b>	838	899	847	(1,793)	791
Income from discontinued operations, net of income taxes	1		47		48
<b>Net income</b>	839	899	894	(1,793)	839
Other comprehensive income	74	74	33	(107)	74
<b>Comprehensive income</b>	\$ 913	\$ 973	\$ 927	\$ (1,900)	\$ 913

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)  
For the Quarter Ended June 26, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$ 3,118	\$	\$ 3,118
Cost of sales			2,070		2,070
<b>Gross margin</b>			1,048		1,048
Selling, general, and administrative expenses	52	17	324		393
Research, development, and engineering expenses			159		159
Acquisition and integration costs			8		8
Restructuring and other charges, net			19		19
<b>Operating income (loss)</b>	(52)	(17)	538		469
Interest income			4		4
Interest expense, net		(34)	1		(33)
Other income, net			11		11
Equity in net income of subsidiaries	403	441		(844)	
Equity in net loss of subsidiaries of discontinued operations	(42)	(42)		84	
Intercompany interest income (expense), net		13	(13)		
<b>Income from continuing operations before income taxes</b>	309	361	541	(760)	451
Income tax expense			(100)		(100)
<b>Income from continuing operations</b>	309	361	441	(760)	351
Loss from discontinued operations, net of income taxes			(42)		(42)
<b>Net income</b>	309	361	399	(760)	309
Other comprehensive income	43	43	41	(84)	43
<b>Comprehensive income</b>	\$ 352	\$ 404	\$ 440	\$ (844)	\$ 352

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)  
For the Nine Months Ended June 24, 2016

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$ 8,906	\$	\$ 8,906
Cost of sales			5,977		5,977
<b>Gross margin</b>			2,929		2,929
Selling, general, and administrative expenses	135	35	904		1,074
Research, development, and engineering expenses			479		479
Acquisition and integration costs	1		18		19
Restructuring and other charges (credits), net	2	(1)	(29)		(28)
<b>Operating income (loss)</b>	(138)	(34)	1,557		1,385
Interest income			12		12
Interest expense		(92)	(1)		(93)
Other expense, net			(631)		(631)
Equity in net income of subsidiaries	1,658	1,724		(3,382)	
Equity in net income of subsidiaries of discontinued operations	67	183		(250)	
Intercompany interest income (expense), net	(16)	60	(44)		
<b>Income from continuing operations before income taxes</b>	1,571	1,841	893	(3,632)	673
Income tax benefit			831		831
<b>Income from continuing operations</b>	1,571	1,841	1,724	(3,632)	1,504
Income (loss) from discontinued operations, net of income taxes <sup>(1)</sup>	1	(116)	183		68
<b>Net income</b>	1,572	1,725	1,907	(3,632)	1,572
Other comprehensive loss	(2)	(2)	(24)	26	(2)
<b>Comprehensive income</b>	\$ 1,570	\$ 1,723	\$ 1,883	\$ (3,606)	\$ 1,570

(1) Includes the internal allocation of gains and losses associated with the divestiture of our BNS business.

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)  
For the Nine Months Ended June 26, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$ 9,249	\$	\$ 9,249
Cost of sales			6,130		6,130
<b>Gross margin</b>			3,119		3,119
Selling, general, and administrative expenses <sup>(1)</sup>	130	(138)	1,178		1,170
Research, development, and engineering expenses			479		479
Acquisition and integration costs			46		46
Restructuring and other charges, net			82		82
<b>Operating income (loss)</b>	(130)	138	1,334		1,342
Interest income			13		13
Interest expense		(104)			(104)
Other expense, net			(64)		(64)
Equity in net income of subsidiaries	1,228	1,156		(2,384)	
Equity in net income of subsidiaries of discontinued operations	278	278		(556)	
Intercompany interest income (expense), net	4	38	(42)		
<b>Income from continuing operations before income taxes</b>	1,380	1,506	1,241	(2,940)	1,187
Income tax expense			(85)		(85)
<b>Income from continuing operations</b>	1,380	1,506	1,156	(2,940)	1,102
Income from discontinued operations, net of income taxes			278		278
<b>Net income</b>	1,380	1,506	1,434	(2,940)	1,380
Other comprehensive loss	(356)	(356)	(362)	718	(356)
<b>Comprehensive income</b>	\$ 1,024	\$ 1,150	\$ 1,072	\$ (2,222)	\$ 1,024

(1) TEGSA selling, general, and administrative expenses include gains of \$105 million related to intercompany transactions. These gains are offset by corresponding losses recorded by Other Subsidiaries.



Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Balance Sheet (UNAUDITED)  
As of June 24, 2016

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$	\$ 694	\$	\$ 694
Accounts receivable, net			2,158		2,158
Inventories			1,610		1,610
Intercompany receivables	25	1,993	2	(2,020)	
Prepaid expenses and other current assets	4	16	447		467
Total current assets	29	2,009	4,911	(2,020)	4,929
Property, plant, and equipment, net			2,976		2,976
Goodwill			5,251		5,251
Intangible assets, net			1,792		1,792
Deferred income taxes			2,208		2,208
Investment in subsidiaries	10,999	20,927		(31,926)	
Intercompany loans receivable	15	3,855	11,773	(15,643)	
Receivable from Tyco International plc and Covidien plc			11		11
Other assets		59	274		333
<b>Total Assets</b>	<b>\$ 11,043</b>	<b>\$ 26,850</b>	<b>\$ 29,196</b>	<b>\$ (49,589)</b>	<b>\$ 17,500</b>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Current maturities of long-term debt	\$	\$ 300	\$ 2	\$	\$ 302
Accounts payable	2		1,155		1,157
Accrued and other current liabilities	440	45	1,207		1,692
Deferred revenue			160		160
Intercompany payables	1,915		105	(2,020)	
Total current liabilities	2,357	345	2,629	(2,020)	3,311
Long-term debt		3,733	1		3,734
Intercompany loans payable	421	11,773	3,449	(15,643)	
Long-term pension and postretirement liabilities			1,334		1,334
Deferred income taxes			326		326
Income taxes			199		199
Other liabilities			331		331
<b>Total Liabilities</b>	<b>2,778</b>	<b>15,851</b>	<b>8,269</b>	<b>(17,663)</b>	<b>9,235</b>
<b>Total Shareholders' Equity</b>	<b>8,265</b>	<b>10,999</b>	<b>20,927</b>	<b>(31,926)</b>	<b>8,265</b>

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

<b>Total Liabilities and Shareholders' Equity</b>	\$	11,043	\$	26,850	\$	29,196	\$	(49,589)	\$	17,500
---	----	--------	----	--------	----	--------	----	----------	----	--------

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Balance Sheet (UNAUDITED)  
As of September 25, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$	\$ 3,329	\$	\$ 3,329
Accounts receivable, net			2,120		2,120
Inventories			1,615		1,615
Intercompany receivables	813	389	66	(1,268)	
Prepaid expenses and other current assets	4	4	468		476
Deferred income taxes			345		345
<b>Total current assets</b>	<b>817</b>	<b>393</b>	<b>7,943</b>	<b>(1,268)</b>	<b>7,885</b>
Property, plant, and equipment, net			2,920		2,920
Goodwill			4,824		4,824
Intangible assets, net			1,555		1,555
Deferred income taxes			2,144		2,144
Investment in subsidiaries	9,505	19,645		(29,150)	
Intercompany loans receivable	22	2,328	8,110	(10,460)	
Receivable from Tyco International plc and Covidien plc			964		964
Other assets		27	270		297
<b>Total Assets</b>	<b>\$ 10,344</b>	<b>\$ 22,393</b>	<b>\$ 28,730</b>	<b>\$ (40,878)</b>	<b>\$ 20,589</b>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Current maturities of long-term debt	\$	\$ 498	\$	\$	\$ 498
Accounts payable	2		1,141		1,143
Accrued and other current liabilities	442	75	1,232		1,749
Deferred revenue			185		185
Intercompany payables	311	824	133	(1,268)	
<b>Total current liabilities</b>	<b>755</b>	<b>1,397</b>	<b>2,691</b>	<b>(1,268)</b>	<b>3,575</b>
Long-term debt		3,385	1		3,386
Intercompany loans payable	4	8,106	2,350	(10,460)	
Long-term pension and postretirement liabilities			1,327		1,327
Deferred income taxes			329		329
Income taxes			1,954		1,954
Other liabilities			433		433
<b>Total Liabilities</b>	<b>759</b>	<b>12,888</b>	<b>9,085</b>	<b>(11,728)</b>	<b>11,004</b>

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

<b>Total Shareholders' Equity</b>		9,585		9,505		19,645		(29,150)		9,585
<b>Total Liabilities and Shareholders' Equity</b>	\$	10,344	\$	22,393	\$	28,730	\$	(40,878)	\$	20,589

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Cash Flows (UNAUDITED)  
For the Nine Months Ended June 24, 2016

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities <sup>(1)</sup>	\$ (175)	\$ 87	\$ 1,504	\$ (179)	\$ 1,237
Net cash provided by discontinued operating activities			1		1
Net cash provided by (used in) operating activities	(175)	87	1,505	(179)	1,238
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(420)		(420)
Proceeds from sale of property, plant, and equipment			3		3
Acquisition of businesses, net of cash acquired			(994)		(994)
Proceeds from divestiture of business, net of cash retained by sold business		199	127		326
Change in intercompany loans		(470)		470	
Other <sup>(2)</sup>		(135)	163		28
Net cash used in investing activities		(406)	(1,121)	470	(1,057)
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(3)</sup>	380	174	(554)		
Net increase in commercial paper		300			300
Proceeds from issuance of long-term debt		349	1		350
Repayment of long-term debt		(500)			(500)
Proceeds from exercise of share options			77		77
Repurchase of common shares	(2,657)				(2,657)
Payment of common share dividends to shareholders	(381)		4		(377)
Loan activity with parent	2,833		(2,363)	(470)	
Intercompany distributions <sup>(1)</sup>			(179)	179	
Transfers from discontinued operations			1		1
Other		(4)	(1)		(5)
Net cash provided by (used in) continuing financing activities	175	319	(3,014)	(291)	(2,811)
Net cash used in discontinued financing activities			(1)		(1)
Net cash provided by (used in) financing activities	175	319	(3,015)	(291)	(2,812)
Effect of currency translation on cash			(4)		(4)
<b>Net decrease in cash and cash equivalents</b>			<b>(2,635)</b>		<b>(2,635)</b>
<b>Cash and cash equivalents at beginning of period</b>			<b>3,329</b>		<b>3,329</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>\$</b>	<b>\$ 694</b>	<b>\$</b>	<b>\$ 694</b>

- (1) During the nine months ended June 24, 2016, Other Subsidiaries made distributions to TEGSA in the amount of \$179 million.
- (2) Includes the internal allocation of proceeds of \$135 million between TEGSA and Other Subsidiaries associated with the divestiture of our BNS business.
- (3) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.

Table of Contents

## TE CONNECTIVITY LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## 20. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Cash Flows (UNAUDITED)  
For the Nine Months Ended June 26, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities	\$ (131)	\$ (45)	\$ 1,255	\$	\$ 1,079
Net cash provided by discontinued operating activities			210		210
Net cash provided by (used in) operating activities	(131)	(45)	1,465		1,289
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(425)		(425)
Proceeds from sale of property, plant, and equipment			10		10
Acquisition of businesses, net of cash acquired			(1,726)		(1,726)
Change in intercompany loans		(1,617)		1,617	
Other			(2)		(2)
Net cash used in continuing investing activities		(1,617)	(2,143)	1,617	(2,143)
Net cash used in discontinued investing activities			(22)		(22)
Net cash used in investing activities		(1,617)	(2,165)	1,617	(2,165)
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(1)</sup>	86	1,497	(1,583)		
Net decrease in commercial paper		(197)			(197)
Proceeds from issuance of long-term debt		617			617
Repayment of long-term debt		(250)	(223)		(473)
Proceeds from exercise of share options			97		97
Repurchase of common shares	(511)				(511)
Payment of common share dividends to shareholders	(375)		5		(370)
Loan activity with parent	931		686	(1,617)	
Transfers from discontinued operations			188		188
Other		(4)	2		(2)
Net cash provided by (used in) continuing financing activities	131	1,663	(828)	(1,617)	(651)
Net cash used in discontinued financing activities			(188)		(188)
Net cash provided by (used in) financing activities	131	1,663	(1,016)	(1,617)	(839)
Effect of currency translation on cash			(41)		(41)
<b>Net increase (decrease) in cash and cash equivalents</b>		1	(1,757)		(1,756)
<b>Cash and cash equivalents at beginning of period</b>		1	2,456		2,457
<b>Cash and cash equivalents at end of period</b>	\$	\$ 2	\$ 699	\$	\$ 701

- 
- (1) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.



Table of Contents

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying notes included elsewhere in this Quarterly Report. The following discussion may contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements as a result of many factors, including but not limited to those under the heading "Forward-Looking Information" and "Part II. Item 1A. Risk Factors."

Our Condensed Consolidated Financial Statements have been prepared in United States ("U.S.") dollars, in accordance with accounting principles generally accepted in the U.S. ("GAAP").

The following discussion includes organic net sales growth and free cash flow which are non-GAAP financial measures. We believe these non-GAAP financial measures, together with GAAP financial measures, provide useful information to investors because they reflect the financial measures that management uses in evaluating the underlying results of our operations. See "Non-GAAP Financial Measures" for more information about these non-GAAP financial measures, including our reasons for including the measures and material limitations with respect to the usefulness of the measures.

**Overview**

TE Connectivity Ltd. ("TE Connectivity" or the "Company," which may be referred to as "we," "us," or "our") is a global technology leader. We design and manufacture connectivity and sensor solutions that are essential in today's increasingly connected world. We help our customers solve the need for intelligent, efficient, and high-performing products and solutions.

Highlights for the third quarter and first nine months of fiscal 2016 include the following:

Our net sales were flat in the third quarter of fiscal 2016 as compared to the same period of fiscal 2015 as growth in the Industrial Solutions and Transportation Solutions segments was offset by declines in the Communications Solutions segment. In the first nine months of fiscal 2016, our net sales decreased 3.7% as compared to the first nine months of fiscal 2015 with declines in all segments. Foreign currency exchange rates negatively impacted net sales by \$6 million and \$265 million in the third quarter and first nine months of fiscal 2016, respectively.

On an organic basis, net sales decreased 0.6% and 1.3% in the third quarter and first nine months of fiscal 2016, respectively, as compared to the same periods of fiscal 2015. Our organic net sales by segment were as follows:

*Transportation Solutions* Our organic net sales increased 2.2% and 2.1% in the third quarter and first nine months of fiscal 2016, respectively, due primarily to increased sales in our automotive end market.

*Industrial Solutions* Our organic net sales decreased 3.6% and 5.7% during the third quarter and first nine months of fiscal 2016, respectively, due primarily to decreased sales in the industrial equipment end market and the aerospace, defense, oil, and gas end market.

*Communications Solutions* Our organic net sales decreased 3.7% and 4.2% in the third quarter and first nine months of fiscal 2016, respectively, due primarily to sales declines in the data and devices end market, partially offset by sales increases in the subsea communications end market.

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

Net cash provided by continuing operating activities increased \$158 million to \$1,237 million in the first nine months of fiscal 2016 from \$1,079 million in the same period of fiscal 2015. Free cash flow increased to \$991 million in the first nine months of fiscal 2016 as compared to \$687 million in the same period of fiscal 2015.

We acquired the Creganna Medical group ("Creganna"), a global leader in the design and manufacture of minimally invasive delivery and access medical devices, during the third quarter of fiscal 2016. This acquisition has been reported as part of the Industrial Equipment business in our Industrial Solutions segment from the date of acquisition.

### **Outlook**

In the fourth quarter of fiscal 2016, we expect net sales to be between \$3.25 billion and \$3.45 billion. This reflects sales growth in the Industrial Solutions and Transportation Solutions segments, partially offset by sales declines in the Communications Solutions segment relative to the fourth quarter of fiscal 2015. Additional information regarding expectations for our reportable segments for the fourth quarter of fiscal 2016 as compared to the same period of fiscal 2015 is as follows:

*Transportation Solutions* We expect strong performance with our sales growth in the automotive end market exceeding expected growth in global automotive production.

*Industrial Solutions* We expect our sales to increase due primarily to the acquisition of Creganna and strength in the aerospace market.

*Communications Solutions* We expect our sales to decline in the data and devices end market as a result of the divestiture of the Circuit Protection Devices ("CPD") business and the strategic exit of certain product lines. This decline is expected to be partially offset by strong sales growth in the subsea communications and appliances end markets.

We expect diluted earnings per share to be in the range of \$1.10 to \$1.16 per share in the fourth quarter of fiscal 2016. This outlook includes approximately \$200 million in net sales and \$0.10 earnings per share resulting from an additional week in the fourth quarter of fiscal 2016.

For fiscal 2016, which will be 53 weeks in length, we expect net sales to be between \$12.15 billion and \$12.35 billion, reflecting sales increases in the Transportation Solutions and Industrial Solutions segments, offset by sales declines in the Communications Solutions segment from fiscal 2015 levels. Additional information regarding expectations for our reportable segments for fiscal 2016 compared to fiscal 2015 is as follows:

*Transportation Solutions* We expect our sales to increase in the automotive end market with growth in global automotive production expected to be 2% to 2.5%.

*Industrial Solutions* We expect our sales increase attributable to the acquisition of Creganna to be partially offset by overall market weakness and sales declines in the oil and gas market.

*Communications Solutions* We expect our sales to decline in the data and devices end market due primarily to the divestiture of the CPD business and the strategic exit of certain product lines. This decline is expected to be partially offset by sales growth in the subsea communications end market.

We expect diluted earnings per share to be in the range of \$5.13 to \$5.19 per share in fiscal 2016. This outlook includes an additional week in fiscal 2016 and reflects the negative impact of foreign currency exchange rates on net sales and earnings per share of approximately \$254 million and \$0.07 per share, respectively, in fiscal 2016 as compared to fiscal 2015.

The above outlook is based on foreign exchange rates and commodity prices that are consistent with current levels.



## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

We are monitoring the current macroeconomic environment, including the proposed exit of the United Kingdom from the European Union, and its potential effects on our customers and the end markets we serve. We continue to closely manage our costs in line with economic conditions. Additionally, we are managing our capital resources and monitoring capital availability to ensure that we have sufficient resources to fund future capital needs. See further discussion in "Liquidity and Capital Resources."

### **Acquisitions**

During the first nine months of fiscal 2016, we acquired three businesses, including Creganna, for a combined cash purchase price of \$994 million, net of cash acquired. See Note 5 to the Condensed Consolidated Financial Statements for additional information regarding acquisitions.

### **Pending Acquisition**

On July 14, 2016, we entered into a share purchase agreement to acquire Intercontec Group for an aggregate cash transaction value of €305 million (equivalent to approximately \$340 million), subject to a post-closing adjustment. This business will be reported as part of the Industrial Equipment business within our Industrial Solutions segment. See Note 19 to the Condensed Consolidated Financial Statements for additional information.

### **Divestiture**

During the second quarter of fiscal 2016, we sold our CPD business for net cash proceeds of \$326 million, subject to working capital adjustments. We recognized a pre-tax gain of \$143 million on the transaction during the nine months ended June 24, 2016. The CPD business was reported as part of the Data and Devices business within our Communications Solutions segment. See Note 3 to the Condensed Consolidated Financial Statements for additional information.

## **Results of Operations**

### **Net Sales**

The following table presents our net sales and the percentage of total net sales by segment:

	For the Quarters Ended				For the Nine Months Ended			
	June 24, 2016		June 26, 2015		June 24, 2016		June 26, 2015	
	(\$ in millions)							
Transportation Solutions	\$ 1,652	53%	\$ 1,621	52%	\$ 4,767	53%	\$ 4,843	52%
Industrial Solutions	849	27	806	26	2,296	26	2,387	26
Communications Solutions	620	20	691	22	1,843	21	2,019	22
Total	\$ 3,121	100%	\$ 3,118	100%	\$ 8,906	100%	\$ 9,249	100%

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

The following table provides an analysis of the change in our net sales by segment:

	Change in Net Sales for the Quarter Ended June 24, 2016 versus Net Sales for the Quarter Ended June 26, 2015							Change in Net Sales for the Nine Months Ended June 24, 2016 versus Net Sales for the Nine Months Ended June 26, 2015																																											
	Organic		Translation		Acquisitions		Divestiture		Total		Organic		Translation		Acquisitions		Divestiture		Total																																
	(\$ in millions)																																																		
Transportation Solutions	\$ 36	2.2%	\$ (7)	\$ 2	\$ 31	1.9%	\$ 101	2.1%	\$ (179)	\$ 2	\$ (76)	(1.6)%	Industrial Solutions	(29)	(3.6)	1	71	43	5.3	(136)	(5.7)	(63)	108	(91)	(3.8)	Communications Solutions	(26)	(3.7)		(45)	(71)	(10.3)	(77)	(4.2)	(23)	(76)	(176)	(8.7)	Total	\$ (19)	(0.6)%	\$ (6)	\$ 28	\$ 3	0.1%	\$ (112)	(1.3)%	\$ (265)	\$ 34	\$ (343)	(3.7)%

Net sales were flat in the third quarter of fiscal 2016 as compared to the third quarter of fiscal 2015 as net sales contributions from acquisitions of 0.9% were largely offset by organic net sales declines of 0.6%. Organic net sales were adversely affected by price erosion of \$44 million.

In the first nine months of fiscal 2016, net sales decreased \$343 million, or 3.7%, as compared to the first nine months of fiscal 2015. The decrease resulted from the negative impact of foreign currency translation of 2.8% and organic net sales declines of 1.3%, partially offset by net sales contributions from acquisitions of 0.4%. Organic net sales were adversely affected by price erosion of \$147 million.

See further discussion of net sales below under "Segment Results."

**Net Sales by Geographic Region.** Our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. dollars at the end of each fiscal period.

Approximately 54% of our net sales were invoiced in currencies other than the U.S. dollar in the first nine months of fiscal 2016.

The following table sets forth our net sales and the percentage of total net sales by geographic region<sup>(1)</sup>:

	For the Quarters Ended				For the Nine Months Ended			
	June 24, 2016		June 26, 2015		June 24, 2016		June 26, 2015	
	(\$ in millions)							
Americas <sup>(2)</sup>	\$ 1,071	34%	\$ 1,083	35%	\$ 3,034	34%	\$ 3,092	33%
Asia Pacific	979	32	1,030	33	2,842	32	3,143	34
Europe/Middle East/Africa ("EMEA")	1,071	34	1,005	32	3,030	34	3,014	33
Total	\$ 3,121	100%	\$ 3,118	100%	\$ 8,906	100%	\$ 9,249	100%

(1) Net sales to external customers are attributed to individual countries based on the legal entity that records the sale.

(2) The Americas region includes our subsea communications business.



## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

The following table provides an analysis of the change in our net sales by geographic region:

	Change in Net Sales for the Quarter Ended June 24, 2016 versus Net Sales for the Quarter Ended June 26, 2015							Change in Net Sales for the Nine Months Ended June 24, 2016 versus Net Sales for the Nine Months Ended June 26, 2015						
	Organic			Acquisitions		Total	Organic			Acquisitions		Total		
		Translati	(Divestiture)					Translati	(Divestiture)					
(\$ in millions)														
Americas	\$ (35)	(3.2)%	\$ (12)	\$ 35	\$ (12)	(1.1)%	\$ (63)	(2.1)%	\$ (57)	\$ 62	\$ (58)	(1.9)%		
Asia Pacific	(8)	(0.8)	(11)	(32)	(51)	(5.0)	(171)	(5.5)	(70)	(60)	(301)	(9.6)		
EMEA	24	2.4	17	25	66	6.6	122	4.0	(138)	32	16	0.5		
Total	\$ (19)	(0.6)%	\$ (6)	\$ 28	\$ 3	0.1%	\$ (112)	(1.3)%	\$ (265)	\$ 34	\$ (343)	(3.7)%		

### Cost of Sales and Gross Margin

The following table presents cost of sales and gross margin information:

	For the Quarters Ended			For the Nine Months Ended		
	June 24, 2016	June 26, 2015	Increase (Decrease)	June 24, 2016	June 26, 2015	Increase (Decrease)
(\$ in millions)						
Cost of sales	\$ 2,099	\$ 2,070	\$ 29	\$ 5,977	\$ 6,130	\$ (153)
As a percentage of net sales	67.3%	66.4%	0.9%	67.1%	66.3%	0.8%
Gross margin	\$ 1,022	\$ 1,048	\$ (26)	\$ 2,929	\$ 3,119	\$ (190)
As a percentage of net sales	32.7%	33.6%	(0.9)%	32.9%	33.7%	(0.8)%

Gross margin decreased \$26 million in the third quarter of fiscal 2016 as compared to the third quarter of fiscal 2015. In the third quarters of fiscal 2016 and 2015, gross margin included charges of \$7 million and \$1 million, respectively, from the amortization of acquisition-related fair value adjustments. Excluding these items, gross margin decreased due primarily to unfavorable product mix and price erosion, partially offset by lower material costs.

Gross margin decreased \$190 million in the first nine months of fiscal 2016 as compared to the same period of fiscal 2015. In the first nine months of fiscal 2016, gross margin included charges of \$9 million from the amortization of acquisition-related fair value adjustments to acquired inventories and customer order backlog associated primarily with Creganna. In the first nine months of fiscal 2015, gross margin included charges of \$34 million from the amortization of acquisition-related fair value adjustments to acquired inventories and customer order backlog associated primarily with Measurement Specialties, Inc. ("Measurement Specialties"). Excluding these items, gross margin decreased due primarily to unfavorable product mix, price erosion, and the negative impact of changes in foreign currency exchange rates, partially offset by lower material costs.

Cost of sales and gross margin are subject to variability in raw material prices, and the price of many of our raw materials continues to fluctuate. We expect to purchase approximately 157 million pounds of copper, 112,000 troy ounces of gold, and 2.4 million troy ounces of silver in fiscal 2016. The following table sets forth the average prices incurred related to copper, gold, and silver:

Measure	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Copper	Lb. \$ 2.36	\$ 3.04	\$ 2.56	\$ 3.09
Gold	Troy oz. 1,198	1,262	1,204	1,275
Silver	Troy oz. 15.75	18.52	15.92	19.01

Table of Contents**Operating Expenses**

The following table presents operating expense information:

	For the Quarters Ended			For the Nine Months Ended		
	June 24, 2016	June 26, 2015	Increase (Decrease)	June 24, 2016	June 26, 2015	Increase (Decrease)
	(\$ in millions)					
Selling, general, and administrative expenses	\$ 367	\$ 393	\$ (26)	\$ 1,074	\$ 1,170	\$ (96)
As a percentage of net sales	11.8%	12.6%	(0.8)%	12.1%	12.7%	(0.6)%
Research, development, and engineering expenses	\$ 161	\$ 159	\$ 2	\$ 479	\$ 479	\$
Acquisition and integration costs	\$ 11	\$ 8	\$ 3	\$ 19	\$ 46	\$ (27)
Restructuring and other charges (credits), net	\$ 31	\$ 19	\$ 12	\$ (28)	\$ 82	\$ (110)

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses decreased \$26 million in the third quarter of fiscal 2016 from the third quarter of fiscal 2015. Selling, general, and administrative expenses decreased \$96 million in the first nine months of fiscal 2016 from the same period of fiscal 2015. The decreases resulted primarily from cost control measures and savings attributable to restructuring actions.

**Acquisition and Integration Costs.** In the third quarter and first nine months of fiscal 2016, we incurred acquisition and integration costs of \$11 million and \$19 million, respectively, related primarily to the acquisitions of Creganna and Measurement Specialties. During the third quarter and first nine months of fiscal 2015, we incurred acquisition and integration costs of \$8 million and \$46 million, respectively, related primarily to the acquisitions of the SEACON Group and Measurement Specialties.

**Restructuring and Other Charges (Credits), Net.** We are committed to continuous productivity improvements and consistently evaluate opportunities to simplify our global manufacturing footprint, migrate facilities to lower-cost regions, reduce fixed costs, and eliminate excess capacity. These initiatives are designed to help us maintain our competitiveness in the industry, improve our operating leverage, and position us for future growth.

During fiscal 2016, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. During the first nine months of fiscal 2016, we incurred net restructuring charges of \$86 million with related cash spending of \$62 million. Annualized cost savings related to actions initiated during the first nine months of fiscal 2016 are expected to be approximately \$100 million and are expected to be realized by the end of fiscal 2017. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses.

During fiscal 2016, we expect to incur net restructuring charges of approximately \$110 million. We expect total spending, which will be funded with cash from operations, to be approximately \$105 million in fiscal 2016.

During the first nine months of fiscal 2016, we recognized a pre-tax gain of \$143 million on the sale of our CPD business.

See Note 3 to the Condensed Consolidated Financial Statements for additional information regarding net restructuring and other charges (credits).



Table of Contents**Operating Income**

The following table presents operating income and operating margin information:

	For the Quarters Ended			For the Nine Months Ended		
	June 24, 2016	June 26, 2015	Increase (Decrease)	June 24, 2016	June 26, 2015	Increase (Decrease)
	(\$ in millions)					
Operating income	\$ 452	\$ 469	\$ (17)	\$ 1,385	\$ 1,342	\$ 43
Operating margin	14.5%	15.0%	(0.5)%	15.6%	14.5%	1.1%

Operating income included the following items:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Acquisition related charges:				
Acquisition and integration costs	\$ 11	\$ 8	\$ 19	\$ 46
Charges associated with the amortization of acquisition-related fair value adjustments	7	1	9	34
Restructuring charges related to acquisitions		1		3
	18	10	28	83
Restructuring and other charges (credits), net	31	18	(28)	79
Total	\$ 49	\$ 28	\$ 162	\$ 162

See further discussion of operating income below under "Segment Results."

**Non-Operating Items**

The following table presents select non-operating information:

	For the Quarters Ended			For the Nine Months Ended		
	June 24, 2016	June 26, 2015	Increase (Decrease)	June 24, 2016	June 26, 2015	Increase (Decrease)
	(in millions)					
Interest expense	\$ 31	\$ 33	\$ (2)	\$ 93	\$ 104	\$ (11)
Other income (expense), net	\$ (651)	\$ 11	\$ (662)	\$ (631)	\$ (64)	\$ (567)
Income tax expense (benefit)	\$ (1,019)	\$ 100	\$ (1,119)	\$ (831)	\$ 85	\$ (916)
Income (loss) from discontinued operations, net of income taxes	\$ 48	\$ (42)	\$ 90	\$ 68	\$ 278	\$ (210)

**Other Income (Expense), Net.** During the quarters and nine months ended June 24, 2016 and June 26, 2015, we recorded net other income (expense) primarily pursuant to the Tax Sharing Agreement with Tyco International plc ("Tyco International") and Covidien plc ("Covidien"). See Note 14 to the Condensed Consolidated Financial Statements for further information.

**Income Taxes.** See Note 13 to the Condensed Consolidated Financial Statements for information regarding items impacting income tax expense (benefit) for the quarters and nine months ended June 24, 2016 and June 26, 2015.

Table of Contents

**Discontinued Operations.** During the fourth quarter of fiscal 2015, we sold our Broadband Network Solutions ("BNS") business for \$3.0 billion in cash and recognized a pre-tax gain of \$1.1 billion on the transaction. During the nine months ended June 24, 2016, we recognized an additional pre-tax gain of \$21 million on the divestiture, related primarily to pension and net working capital adjustments. The BNS business met the discontinued operations criteria and was reported as such in all periods presented on the Condensed Consolidated Financial Statements. Prior to reclassification to discontinued operations, the BNS business was included in the former Network Solutions segment. See Note 4 to the Condensed Consolidated Financial Statements for additional information regarding discontinued operations.

**Segment Results**

**Transportation Solutions**

**Net Sales.** The following table presents the Transportation Solutions segment's net sales and the percentage of total net sales by primary industry end market<sup>(1)</sup>:

	For the Quarters Ended				For the Nine Months Ended			
	June 24, 2016		June 26, 2015		June 24, 2016		June 26, 2015	
	(\$ in millions)							
Automotive	\$ 1,245	75%	\$ 1,217	75%	\$ 3,601	75%	\$ 3,652	75%
Commercial								
Transportation	217	13	210	13	610	13	630	13
Sensors	190	12	194	12	556	12	561	12
Total	\$ 1,652	100%	\$ 1,621	100%	\$ 4,767	100%	\$ 4,843	100%

(1) Industry end market information is presented consistently with our internal management reporting and may be revised periodically as management deems necessary.

The following table provides an analysis of the change in the Transportation Solutions segment's net sales by primary industry end market:

	Change in Net Sales for the Quarter Ended June 24, 2016 versus Net Sales for the Quarter Ended June 26, 2015				Change in Net Sales for the Nine Months Ended June 24, 2016 versus Net Sales for the Nine Months Ended June 26, 2015				
	Organic	Translation	Acquisition	Total	Organic	Translation	Acquisition	Total	
	(\$ in millions)								
Automotive	\$ 33	2.7%	\$ (5)	\$ 28	2.3%	\$ 90	2.5%	\$ (141)	\$ (51) (1.4)%
Commercial									
Transportation	7	3.3		7	3.3	(3)	(0.3)	(17)	(20) (3.2)
Sensors	(4)	(2.1)	(2)	2	(4)	(2.1)	14	2.7	(21) 2 (5) (0.9)
Total	\$ 36	2.2%	\$ (7)	\$ 31	1.9%	\$ 101	2.1%	\$ (179)	\$ 2 (76) (1.6)%

In the third quarter of fiscal 2016, net sales in the Transportation Solutions segment increased \$31 million, or 1.9%, as compared to the same period of fiscal 2015 due primarily to organic net sales growth of 2.2%. Our organic net sales by primary industry end market were as follows:

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

*Automotive* Our organic net sales increased 2.7% in the third quarter of fiscal 2016 with growth of 6.8% in the Asia Pacific region and 3.7% in the EMEA region, partially offset by a decrease of 7.4% in the Americas region. Our growth in the Asia Pacific region was driven by increased electrification and increased market share in China. In the EMEA region, our organic net sales increased due to electrification and new model launches. The Americas region was negatively impacted by market weakness in North America and macroeconomic conditions in Brazil.

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

*Commercial transportation* Our organic net sales increased 3.3% in the third quarter of fiscal 2016 due primarily to growth in the heavy truck market in the EMEA region and China.

*Sensors* Our organic net sales decreased 2.1% in the third quarter of fiscal 2016 due to weakness in the data and devices, industrial equipment, and commercial transportation markets.

Net sales in the Transportation Solutions segment decreased \$76 million, or 1.6%, in the first nine months of fiscal 2016 as compared to the same period of fiscal 2015 due primarily to the negative impact of foreign currency translation of 3.7%, partially offset by organic net sales growth of 2.1%. Our organic net sales by primary industry end market were as follows:

*Automotive* Our organic net sales increased 2.5% in the first nine months of fiscal 2016. The increase was due to growth of 4.6% in the EMEA region and 3.3% in the Asia Pacific region, partially offset by a decrease of 3.5% in the Americas region. In the EMEA region, our organic net sales increased due to electronification and new model launches. Our growth in the Asia Pacific region resulted from increased electronification and increased market share in China. The Americas region was adversely impacted by market weakness in North America and macroeconomic conditions in Brazil.

*Commercial transportation* Our organic net sales were flat in the first nine months of fiscal 2016. In the heavy truck market, increased demand in the EMEA region and China was offset by declines in North America. In addition, there was continued weakness in the construction and agriculture markets with declines in all regions.

*Sensors* Our organic net sales increased 2.7% in the first nine months of fiscal 2016 due to increased sales in the aerospace and defense, data and devices, automotive, and commercial transportation markets, partially offset by weakness in the oil and gas market.

**Operating Income.** The following table presents the Transportation Solutions segment's operating income and operating margin information:

	For the Quarters Ended			For the Nine Months Ended		
	June 24, 2016	June 26, 2015	Increase (Decrease)	June 24, 2016	June 26, 2015	Increase (Decrease)
	(\$ in millions)					
Operating income	\$ 297	\$ 303	\$ (6)	\$ 847	\$ 921	\$ (74)
Operating margin	18.0%	18.7%	(0.7)%	17.8%	19.0%	(1.2)%

The Transportation Solutions segment's operating income included the following items:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Acquisition related charges:				
Acquisition and integration costs	\$ 2	\$ 4	\$ 6	\$ 23
Charges associated with the amortization of acquisition-related fair value adjustments				30
Restructuring charges related to acquisitions		1		3
	2	5	6	56
Restructuring and other charges, net	21	9	52	10
<b>Total</b>	<b>\$ 23</b>	<b>\$ 14</b>	<b>\$ 58</b>	<b>\$ 66</b>



## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

In the third quarter of fiscal 2016, operating income in the Transportation Solutions segment decreased \$6 million as compared to the third quarter of fiscal 2015. Excluding the items presented in the table above, operating income was flat in the third quarter of fiscal 2016 with the impact of lower material costs offset by price erosion.

Operating income in the Transportation Solutions segment decreased \$74 million in the first nine months of fiscal 2016 from the same period of fiscal 2015. Excluding the items presented in the table above, operating income decreased in the first nine months of fiscal 2016 primarily as a result of price erosion and the negative impact of changes in foreign currency exchange rates, partially offset by lower material costs.

### **Industrial Solutions**

**Net Sales.** The following table presents the Industrial Solutions segment's net sales and the percentage of total net sales by primary industry end market<sup>(1)</sup>:

	For the Quarters Ended				For the Nine Months Ended			
	June 24, 2016		June 26, 2015		June 24, 2016		June 26, 2015	
	(\$ in millions)							
Industrial Equipment	\$ 395	47%	\$ 345	43%	\$ 992	43%	\$ 980	41%
Aerospace, Defense, Oil, and Gas	276	32	279	35	801	35	874	37
Energy	178	21	182	22	503	22	533	22
Total	\$ 849	100%	\$ 806	100%	\$ 2,296	100%	\$ 2,387	100%

(1) Industry end market information is presented consistently with our internal management reporting and may be revised periodically as management deems necessary.

The following table provides an analysis of the change in the Industrial Solutions segment's net sales by primary industry end market:

	Change in Net Sales for the Quarter Ended June 24, 2016 versus Net Sales for the Quarter Ended June 26, 2015				Change in Net Sales for the Nine Months Ended June 24, 2016 versus Net Sales for the Nine Months Ended June 26, 2015							
	Organic	Translation	Acquisitions	Total	Organic	Translation	Acquisitions	Total				
	(\$ in millions)											
Industrial Equipment	\$ (24)	(6.8)%	\$ 4	\$ 70	\$ 50	14.5%	\$ (72)	(7.3)%	\$ (16)	\$ 100	\$ 12	1.2%
Aerospace, Defense, Oil, and Gas	(5)	(1.9)	1	1	(3)	(1.1)	(66)	(7.6)	(15)	8	(73)	(8.4)
Energy		(0.2)	(4)	(4)	(2.2)		2	0.3	(32)		(30)	(5.6)
Total	\$ (29)	(3.6)%	\$ 1	\$ 71	\$ 43	5.3%	\$ (136)	(5.7)%	\$ (63)	\$ 108	\$ (91)	(3.8)%

Net sales in the Industrial Solutions segment increased \$43 million, or 5.3%, in the third quarter of fiscal 2016 from the third quarter of fiscal 2015 primarily as a result of sales contributions from acquisitions of 8.8%, partially offset by organic net sales declines of 3.6%. Our organic net sales by primary industry end market were as follows:

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

*Industrial equipment* Our organic net sales decreased 6.8% in the third quarter of fiscal 2016 due primarily to market weakness in the Asia Pacific and Americas regions.

*Aerospace, defense, oil, and gas* Our organic net sales decreased 1.9% in the third quarter of fiscal 2016 with declines in the oil and gas market, partially offset by growth in the aerospace and defense market. In the oil and gas market, our organic net sales decrease was due primarily to continuing market weakness resulting from declines in oil prices. In the aerospace and defense market, our organic net sales increased due to customer growth and market share gains.

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

*Energy* Our organic net sales were flat in the third quarter of fiscal 2016 as continued market weakness in the Asia Pacific region was offset by growth in the Americas and EMEA regions.

In the first nine months of fiscal 2016, net sales in the Industrial Solutions segment decreased \$91 million, or 3.8%, from the same period of fiscal 2015 due to organic net sales declines of 5.7% and the negative impact of foreign currency translation of 2.6%, partially offset by sales contributions from acquisitions of 4.5%. Our organic net sales by primary industry end market were as follows:

*Industrial equipment* Our organic net sales decreased 7.3% in the first nine months of fiscal 2016 due to continuing market weakness in the Americas and Asia Pacific regions.

*Aerospace, defense, oil, and gas* Our organic net sales decreased 7.6% in the first nine months of fiscal 2016. In the oil and gas market, our organic net sales decrease was due primarily to continuing market weakness resulting from declines in oil prices. Our organic net sales increase in the aerospace market was more than offset by declines in the defense market resulting from weakness across our distribution channel during the first half of fiscal 2016.

*Energy* Our organic net sales were flat in the first nine months of fiscal 2016 as growth in the Americas and EMEA regions was offset by market weakness in the Asia Pacific region.

**Operating Income.** The following table presents the Industrial Solutions segment's operating income and operating margin information:

	For the Quarters Ended			For the Nine Months Ended		
	June 24, 2016	June 26, 2015	Increase (Decrease)	June 24, 2016	June 26, 2015	Increase (Decrease)
	(\$ in millions)					
Operating income	\$ 95	\$ 98	\$ (3)	\$ 224	\$ 268	\$ (44)
Operating margin	11.2%	12.2%	(1.0)%	9.8%	11.2%	(1.4)%

The Industrial Solutions segment's operating income included the following items:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Acquisition related charges:				
Acquisition and integration costs	\$ 9	\$ 4	\$ 13	\$ 23
Charges associated with the amortization of acquisition-related fair value adjustments	7	1	9	4
	16	5	22	27
Restructuring and other charges, net	1	6	28	24
Total	\$ 17	\$ 11	\$ 50	\$ 51

Operating income in the Industrial Solutions segment decreased \$3 million in the third quarter of fiscal 2016 as compared to the third quarter of fiscal 2015. Excluding the items presented in the table above, operating income was flat in the third quarter of fiscal 2016 as lower material costs and savings attributable to restructuring actions were offset by the impact of unfavorable product mix and lower volume.

In the first nine months of fiscal 2016, operating income in the Industrial Solutions segment decreased \$44 million from the same period of fiscal 2015. Excluding the items presented in the table





## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

above, operating income decreased in the first nine months of fiscal 2016 due primarily to lower volume, unfavorable product mix, and price erosion, partially offset by lower material costs.

### Communications Solutions

**Net Sales.** The following table presents the Communications Solutions segment's net sales and the percentage of total net sales by primary industry end market<sup>(1)</sup>:

	For the Quarters Ended				For the Nine Months Ended			
	June 24, 2016		June 26, 2015		June 24, 2016		June 26, 2015	
	(\$ in millions)							
Data and Devices	\$ 235	38%	\$ 328	48%	\$ 758	41%	\$ 1,035	51%
Subsea Communications	223	36	202	29	646	35	506	25
Appliances	162	26	161	23	439	24	478	24
Total	\$ 620	100%	\$ 691	100%	\$ 1,843	100%	\$ 2,019	100%

(1)

Industry end market information is presented consistently with our internal management reporting and may be revised periodically as management deems necessary.

The following table provides an analysis of the change in the Communications Solutions segment's net sales by primary industry end market:

	Change in Net Sales for the Quarter Ended June 24, 2016 versus Net Sales for the Quarter Ended June 26, 2015				Change in Net Sales for the Nine Months Ended June 24, 2016 versus Net Sales for the Nine Months Ended June 26, 2015								
	Organic	Translation	Divestiture	Total	Organic	Translation	Divestiture	Total					
	(\$ in millions)												
Data and Devices	\$ (50)	(16.7)%	\$ 2	(\$ (45))	(\$ (93))	(28.4)%	\$ (189)	(21.5)%	(\$ (12))	(\$ (76))	(27.7)%	(\$ (277))	(26.8)%
Subsea Communications	21	10.4		21	10.4		140	27.7				140	27.7
Appliances	3	1.6	(2)	1	0.6		(28)	(5.9)	(11)			(39)	(8.2)
Total	\$ (26)	(3.7)%	\$	(\$ (45))	(\$ (71))	(10.3)%	(\$ (77))	(4.2)%	(\$ (23))	(\$ (76))	(8.7)%	(\$ (176))	(8.7)%

In the third quarter of fiscal 2016, net sales in the Communications Solutions segment decreased \$71 million, or 10.3%, from the third quarter of fiscal 2015 due to sales declines resulting from a divestiture of 6.6% and organic net sales declines of 3.7%. Our organic net sales by primary industry end market were as follows:

*Data and devices* Our organic net sales decreased 16.7% in the third quarter of fiscal 2016 due to market weakness in the Asia Pacific region and the strategic exit of certain low margin product lines.

*Subsea communications* Our organic net sales increased 10.4% in the third quarter of fiscal 2016 as a result of increased levels of project activity.

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

*Appliances* Our organic net sales increased 1.6% in the third quarter of fiscal 2016 as a result of increased direct sales in the Asia Pacific region and increased sales through distributors in the Americas region, partially offset by decreased sales in the EMEA region.

Net sales in the Communications Solutions segment decreased \$176 million, or 8.7%, in the first nine months of fiscal 2016 as compared to the same period of fiscal 2015 due to organic net sales

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

declines of 4.2%, sales declines resulting from a divestiture of 3.7%, and the negative impact of foreign currency translation of 0.8%. Our organic net sales by primary industry end market were as follows:

*Data and devices* Our organic net sales decreased 21.5% in the first nine months of fiscal 2016 as a result of high inventory levels at distributors in the first half of the year, market weakness in the Asia Pacific and Americas regions, and the strategic exit of certain low margin product lines.

*Subsea communications* Our organic net sales increased 27.7% in the first nine months of fiscal 2016 due to increased levels of project activity.

*Appliances* Our organic net sales decreased 5.9% in the first nine months of fiscal 2016 due primarily to high inventory levels at distributors in the Asia Pacific and Americas regions in the first half of the year.

**Operating Income.** The following table presents the Communications Solutions segment's operating income and operating margin information:

	For the Quarters Ended			For the Nine Months Ended		
	June 24, 2016	June 26, 2015	Increase (Decrease)	June 24, 2016	June 26, 2015	Increase (Decrease)
	(\$ in millions)					
Operating income	\$ 60	\$ 68	\$ (8)	\$ 314	\$ 153	\$ 161
Operating margin	9.7%	9.8%	(0.1)%	17.0%	7.6%	9.4%

The Communications Solutions segment's operating income included the following items:

	For the Quarters Ended		For the Nine Months Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
	(in millions)			
Restructuring and other charges (credits), net	\$ 9	\$ 3	\$ (108) <sup>(1)</sup>	\$ 45

(1) Includes pre-tax gain of \$143 million on the sale of our CPD business during the first nine months of fiscal 2016.

Operating income in the Communications Solutions segment decreased \$8 million in the third quarter of fiscal 2016 as compared to the third quarter of fiscal 2015. Excluding the items presented in the table above, operating income was flat in the third quarter of fiscal 2016 as the impact of unfavorable product mix was offset by lower material costs.

In the first nine months of fiscal 2016, operating income in the Communications Solutions segment increased \$161 million as compared to the same period of fiscal 2015, primarily as a result of the divestiture of the CPD business. Excluding the items presented in the table above, operating income increased in the first nine months of fiscal 2016 due primarily to lower material costs and savings attributable to restructuring actions, partially offset by the impact of unfavorable product mix, price erosion, and lower volume.

Table of Contents**Liquidity and Capital Resources**

The following table summarizes our cash flow from operating, investing, and financing activities, as reflected on the Condensed Consolidated Statements of Cash Flows:

	<b>For the</b>	
	<b>Nine Months Ended</b>	
	<b>June 24,</b>	<b>June 26,</b>
	<b>2016</b>	<b>2015</b>
	<b>(in millions)</b>	
Net cash provided by operating activities	\$ 1,238	\$ 1,289
Net cash used in investing activities	(1,057)	(2,165)
Net cash used in financing activities	(2,812)	(839)
Effect of currency translation on cash	(4)	(41)
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (2,635)</b>	<b>\$ (1,756)</b>

Our ability to fund our future capital needs will be affected by our ability to continue to generate cash from operations and may be affected by our ability to access the capital markets, money markets, or other sources of funding, as well as the capacity and terms of our financing arrangements. We believe that cash generated from operations and, to the extent necessary, these other sources of potential funding will be sufficient to meet our anticipated capital needs for the foreseeable future. We may use excess cash to purchase a portion of our common shares pursuant to our authorized share repurchase program; to acquire strategic businesses or product lines; to pay distributions or dividends on our common shares; or to reduce our outstanding debt, including through the possible repurchase of our debt in accordance with applicable law. The cost or availability of future funding may be impacted by financial market conditions. We will continue to monitor financial markets and respond as necessary to changing conditions.

**Cash Flows from Operating Activities**

In the first nine months of fiscal 2016, net cash provided by continuing operating activities increased \$158 million to \$1,237 million from \$1,079 million in the first nine months of fiscal 2015. The increase resulted primarily from the favorable effects of changes in inventory and accounts receivable levels, partially offset by the net payments related to pre-separation tax matters.

The amount of income taxes paid, net of refunds, during the first nine months of fiscal 2016 and 2015 was \$742 million and \$281 million, respectively. Payments made in the first nine months of fiscal 2016 and 2015 included \$448 million and \$30 million, respectively, for tax deficiencies related to pre-separation U.S. tax matters. Also during the first nine months of fiscal 2016 and 2015, we received net reimbursements of \$303 million and \$7 million, respectively, from Tyco International and Covidien pursuant to their indemnifications for pre-separation U.S. tax matters. See Note 10 to the Condensed Consolidated Financial Statements for additional information related to pre-separation tax matters.

In addition to net cash provided by operating activities, we use free cash flow, a non-GAAP financial measure, as a useful measure of our ability to generate cash. Free cash flow was \$991 million in the first nine months of fiscal 2016 as compared to \$687 million in the first nine months of fiscal 2015. The increase in free cash flow was driven primarily by the favorable effects of changes in inventory and accounts receivable levels.

Table of Contents

The following table sets forth a reconciliation of net cash provided by continuing operating activities, the most comparable GAAP financial measure, to free cash flow.

	<b>For the Nine Months Ended</b>	
	<b>June 24, 2016</b>	<b>June 26, 2015</b>
	<b>(in millions)</b>	
Net cash provided by continuing operating activities	\$ 1,237	\$ 1,079
Excluding:		
Payments related to pre-separation U.S. tax matters, net	145	23
Payments related to income taxes on the sale of the BNS business	26	
Capital expenditures	(420)	(425)
Proceeds from sale of property, plant, and equipment	3	10
Free cash flow	\$ 991	\$ 687

**Cash Flows from Investing Activities**

Capital spending was \$420 million and \$425 million in the first nine months of fiscal 2016 and 2015, respectively. We expect fiscal 2016 capital spending levels to be approximately 5% of net sales. We believe our capital funding levels are adequate to support new programs, and we continue to invest in our manufacturing infrastructure to further enhance productivity and manufacturing capabilities.

We received net cash proceeds of \$326 million related to the sale of our CPD business during the first nine months of fiscal 2016. See additional information in Note 3 to the Condensed Consolidated Financial Statements.

During the first nine months of fiscal 2016, we acquired three businesses, including Creganna, for a combined cash purchase price of \$994 million, net of cash acquired. See additional information in Note 5 to the Condensed Consolidated Financial Statements.

During the first nine months of fiscal 2015, we acquired Measurement Specialties. The total value paid for the transaction was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. During the first nine months of fiscal 2015, we also purchased three additional businesses for \$242 million in cash, net of cash acquired.

**Cash Flows from Financing Activities and Capitalization**

Total debt at June 24, 2016 and September 25, 2015 was \$4,036 million and \$3,884 million, respectively. See Note 9 to the Condensed Consolidated Financial Statements for additional information regarding debt.

During January 2016, Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, issued \$350 million aggregate principal amount of 3.700% senior notes due February 15, 2026. The notes are TEGSA's unsecured senior obligations and rank equally in right of payment with all existing and any future senior indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur. The notes are fully and unconditionally guaranteed as to payment on an unsecured basis by TE Connectivity Ltd.

Table of Contents

During January 2016, TEGSA repaid, at maturity, \$500 million senior floating rate notes due 2016.

TEGSA has a five-year unsecured senior revolving credit facility ("Credit Facility") with total commitments of \$1,500 million. The Credit Facility was amended in December 2015 primarily to extend the maturity date from August 2018 to December 2020. TEGSA had no borrowings under the Credit Facility at June 24, 2016 and September 25, 2015.

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt to Consolidated EBITDA (as defined in the Credit Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.75 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants. None of our covenants are presently considered restrictive to our operations. As of June 24, 2016, we were in compliance with all of our debt covenants and believe that we will continue to be in compliance with our existing covenants for the foreseeable future.

In addition to the Credit Facility, TEGSA is the borrower under our senior notes and commercial paper. TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd.

Payments of common share dividends to shareholders were \$377 million and \$370 million in the first nine months of fiscal 2016 and 2015, respectively.

In March 2016, our shareholders approved a dividend payment to shareholders of \$1.48 (equivalent to CHF 1.48) per share out of contributed surplus, payable in four equal quarterly installments beginning in the third quarter of fiscal 2016 through the second quarter of fiscal 2017. We paid the first installment of the dividend at a rate of \$0.37 per share in the third quarter of fiscal 2016.

In the second quarter of fiscal 2016, our board of directors authorized an increase of \$1.0 billion in the share repurchase program. We repurchased approximately 41 million of our common shares for \$2,514 million and approximately 8 million of our common shares for \$536 million under our share repurchase authorization during the first nine months of fiscal 2016 and 2015, respectively. At June 24, 2016, we had \$1.2 billion of availability remaining under our share repurchase authorization.

## **Commitments and Contingencies**

### **Legal Proceedings**

In the normal course of business, we are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, employment disputes, disputes on agreements, other commercial disputes, environmental matters, antitrust claims, and tax matters, including non-income tax matters such as value added tax, sales and use tax, real estate tax, and transfer tax. Although it is not feasible to predict the outcome of these proceedings, based upon our experience, current information, and applicable law, we do not expect that the outcome of these proceedings, either individually or in the aggregate, will have a material effect on our results of operations, financial position, or cash flows.

As previously reported, we had a contingent purchase price commitment of \$80 million related to our fiscal 2001 acquisition of Com-Net. This represented the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system was completed for and approved by the State of Florida in accordance with guidelines set forth in the contract. Under the terms of the purchase and sale agreement, we did not believe we had any obligation to the sellers. However, the sellers contested our position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania. Trial began in March 2015 and culminated in the entry of final judgment on October 8, 2015, in favor of the sellers and against us for

Table of Contents

\$127 million plus costs. The judgment represented the \$80 million contingent purchase price plus pre-judgment interest. In July 2016, we entered into settlement agreements with the sellers pursuant to which we agreed to pay the sellers an aggregate amount of \$96 million settling all matters in dispute. Payment of this amount was made during July 2016. In connection with the settlements, during the quarter ended June 24, 2016, we recorded pre-tax credits of \$30 million, representing a reduction in related reserves. This amount is reflected in income (loss) from discontinued operations on the Condensed Consolidated Statement of Operations as the Com-Net case was associated with our former Wireless Systems business which was sold in 2009.

**Income Tax Matters**

In connection with the separation from Tyco International in 2007, we entered into a Tax Sharing Agreement that generally governs our, Tyco International's, and Covidien's respective rights, responsibilities, and obligations with respect to taxes for periods prior to and including June 29, 2007. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. See "Income Tax Matters" in Note 10 to the Condensed Consolidated Financial Statements for further information regarding income tax matters, including the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007.

**Off-Balance Sheet Arrangements**

In certain instances, we have guaranteed the performance of third parties and provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from fiscal 2016 through the completion of such transactions. The guarantees would be triggered in the event of nonperformance, and the potential exposure for nonperformance under the guarantees would not have a material effect on our results of operations, financial position, or cash flows.

In disposing of assets or businesses, we often provide representations, warranties, and/or indemnities to cover various risks including unknown damage to assets, environmental risks involved in the sale of real estate, liability for investigation and remediation of environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not expect that these uncertainties will have a material adverse effect on our results of operations, financial position, or cash flows.

At June 24, 2016, we had outstanding letters of credit, letters of guarantee, and surety and appeal bonds of \$490 million.

In the normal course of business, we are liable for contract completion and product performance. In the opinion of management, such obligations will not significantly affect our results of operations, financial position, or cash flows.

**Critical Accounting Policies and Estimates**

The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses.

Our accounting policies for revenue recognition, goodwill and other intangible assets, income taxes, and pension and postretirement benefits are based on, among other things, judgments and assumptions made by management. For additional information regarding these policies and the underlying accounting assumptions and estimates used in these policies, refer to the Consolidated Financial



Table of Contents

Statements and accompanying notes contained in our Annual Report on Form 10-K for the fiscal year ended September 25, 2015. There were no significant changes to this information during the nine months ended June 24, 2016.

**Accounting Pronouncements**

See Note 2 to the Condensed Consolidated Financial Statements for information regarding recently issued and recently adopted accounting pronouncements.

**Non-GAAP Financial Measures**

Organic net sales growth and free cash flow are non-GAAP measures and should not be considered replacements for results in accordance with GAAP. These non-GAAP measures may not be comparable to similarly-titled measures reported by other companies. The primary limitation of these measures is that they exclude the financial impact of items that would otherwise either increase or decrease our reported results. This limitation is best addressed by using these non-GAAP measures in combination with the most directly comparable GAAP measures in order to better understand the amounts, character, and impact of any increase or decrease in reported amounts. The following provides additional information regarding these non-GAAP measures.

**Organic Net Sales Growth**

Organic net sales growth is a useful measure of our underlying results and trends in the business. It is also a significant component in our incentive compensation plans. The difference between reported net sales growth (the most comparable GAAP measure) and organic net sales growth consists of the impact from foreign currency exchange rates, and acquisitions and divestitures, if any. Organic net sales growth is a useful measure of our performance because it excludes items that are not completely under management's control, such as the impact of changes in foreign currency exchange rates, and items that do not reflect the underlying growth of the company, such as acquisition and divestiture activity. Management uses organic net sales growth to monitor and evaluate performance. Also, management uses organic net sales growth together with GAAP measures such as net sales growth and operating income in its decision making processes related to the operations of our reportable segments and our overall company. We believe that investors benefit from having access to the same financial measures that management uses in evaluating operations. The tables presented in "Results of Operations" and "Segment Results" above provide reconciliations of organic net sales growth to net sales growth calculated under GAAP.

**Free Cash Flow**

Free cash flow is a useful measure of our ability to generate cash. The difference between net cash provided by continuing operating activities (the most comparable GAAP measure) and free cash flow consists mainly of significant cash outflows and inflows that we believe are useful to identify. We believe free cash flow provides useful information to investors as it provides insight into the primary cash flow metric used by management to monitor and evaluate cash flows generated from our operations.

Free cash flow is defined as net cash provided by continuing operating activities excluding voluntary pension contributions and the cash impact of special items, if any, minus net capital expenditures. Voluntary pension contributions are excluded because this activity is driven by economic financing decisions rather than operating activity. Certain special items, including net payments related to pre-separation tax matters, are also excluded by management in evaluating free cash flow. Net capital expenditures consist of capital expenditures less proceeds from the sale of property, plant, and equipment. These items are subtracted because they represent long-term commitments.

Table of Contents

In the calculation of free cash flow, we subtract certain cash items that are ultimately within management's and the board of directors' discretion to direct and may imply that there is less or more cash available for our programs than the most comparable GAAP measure indicates. It should not be inferred that the entire free cash flow amount is available for future discretionary expenditures, as our definition of free cash flow does not consider certain non-discretionary expenditures, such as debt payments. In addition, we may have other discretionary expenditures, such as discretionary dividends, share repurchases, and business acquisitions, that are not considered in the calculation of free cash flow.

The tables presented in "Liquidity and Capital Resources" above provide reconciliations of free cash flow to cash flows from continuing operating activities calculated under GAAP.

**Forward-Looking Information**

Certain statements in this Quarterly Report on Form 10-Q are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among others, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, acquisitions, divestitures, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "should," or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we file this report except as required by law.

The following and other risks, which are described in greater detail in "Part I. Item 1A. Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended September 25, 2015, could cause our results to differ materially from those expressed in forward-looking statements:

conditions in the global or regional economies and global capital markets, and cyclical industry conditions (including as a result of the impact of the proposed exit of the United Kingdom from the European Union);

conditions affecting demand for products in the industries we serve, particularly the automotive industry;

competition and pricing pressure;

market acceptance of new product introductions and product innovations and product life cycles;

raw material availability, quality, and cost;

fluctuations in foreign currency exchange rates;

financial condition and consolidation of customers and vendors;

reliance on third-party suppliers;

risks associated with our acquisition of Creganna;

risks associated with current and future acquisitions and divestitures;

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

global risks of business interruptions such as natural disasters and political, economic, and military instability;

risks associated with security breaches and other disruptions to our information technology infrastructure;

risks related to compliance with current and future environmental and other laws and regulations;

our ability to protect our intellectual property rights;

risks of litigation;

our ability to operate within the limitations imposed by our debt instruments;

risks relating to our separation on June 29, 2007 from Tyco International;

the possible effects on us of various U.S. and non-U.S. legislative proposals and other initiatives that, if adopted, could materially increase our worldwide corporate effective tax rate and negatively impact our U.S. government contracts business;

various risks associated with being a Swiss corporation;

the impact of fluctuations in the market price of our shares; and

the impact of certain provisions of our articles of association on unsolicited takeover proposals.

There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in our exposures to market risk during the first nine months of fiscal 2016. For further discussion of our exposures to market risk, refer to "Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended September 25, 2015.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Acting Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), as of June 24, 2016. Based on that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 24, 2016.

#### **Changes in Internal Control Over Financial Reporting**

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

During the quarter ended June 24, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

There have been material developments in our legal proceedings since we filed our Annual Report on Form 10-K for the fiscal year ended September 25, 2015 as described under "Legal Proceedings" and "Income Tax Matters" in Note 10 to the Condensed Consolidated Financial Statements in this report. For a description of our previously reported legal proceedings, refer to "Part I. Item 3. Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended September 25, 2015.

**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 25, 2015, other than as set forth in "Part II. Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarterly period ended March 25, 2016. The risk factors described in our Annual Report on Form 10-K and subsequent Quarterly Report on Form 10-Q, in addition to other information in this report, could materially affect our business operations, financial condition, or liquidity. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial may also impair our business operations, financial condition, and liquidity.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Recent Sales of Unregistered Securities**

None.

**Issuer Purchases of Equity Securities**

The following table presents information about our purchases of our common shares during the quarter ended June 24, 2016:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
March 26 - April 22, 2016	1,754	\$ 60.96		\$ 1,296,611,795
April 23 - May 27, 2016	631,913	59.81	627,500	1,259,079,143
May 28 - June 24, 2016	1,012,055	61.13	1,011,400	1,197,251,293
Total	1,645,722	\$ 60.62	1,638,900	

(1) These columns include the following transactions which occurred during the quarter ended June 24, 2016:

- (i) the acquisition of 6,822 common shares from individuals in order to satisfy tax withholding requirements in connection with the vesting of restricted share awards issued under equity compensation plans; and
- (ii) open market purchases totaling 1,683,900 common shares, summarized on a trade-date basis, in conjunction with the share repurchase program announced in September 2007.

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

(2)

On March 2, 2016, our board of directors authorized an increase of \$1.0 billion in the share repurchase program. Our share repurchase program authorizes us to purchase a portion of our outstanding common shares from time to time through open market or private transactions, depending on business and market conditions. The share repurchase program does not have an expiration date.

Table of Contents

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit</b>
3.1	Articles of Association of TE Connectivity Ltd., as amended and restated (incorporated by reference to Exhibit 3.1 to TE Connectivity's Current Report on Form 8-K, filed May 10, 2016)
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by the Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification by the Chief Executive Officer and Acting Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101	Financial statements from the Quarterly Report on Form 10-Q of TE Connectivity Ltd. for the quarterly period ended June 24, 2016, filed on July 22, 2016, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Equity, (v) the Condensed Consolidated Statements of Cash Flows, and (vi) the Notes to Condensed Consolidated Financial Statements*

---

\*  
Filed herewith

\*\*  
Furnished herewith



