COMMSCOPE INC
Form 10-Q
August 02, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from to

Commission file number 001-12929

CommScope, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-4135495** (I.R.S. Employer Identification No.)

1100 CommScope Place, SE

P.O. Box 339

Hickory, North Carolina

(Address of principal executive offices)

28602

(Zip Code)

(828) 324-2200

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Exchange Act Rule 12b-2). Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of July 27, 2007 there were 61,664,296 shares of Common Stock outstanding.

CommScope, Inc.
Form 10-Q
June 30, 2007
Table of Contents

Part I Financial Information (Unaudited):

Item 1. Condensed Consolidated Financial Statements:

Condensed Consolidated Statements of Operations

Condensed Consolidated Balance Sheets

Condensed Consolidated Statements of Cash Flows

Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income

Notes to Condensed Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Part II Other Information:

Item 1A. Risk Factors

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits

Signature

CommScope, Inc.
Condensed Consolidated Statements of Operations
(Unaudited In thousands, except per share amounts)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Net sales	$ 519,144	$ 411,881	$ 954,596	$ 764,135
Operating costs and expenses:				
Cost of sales	356,550	303,333	660,058	570,848
Selling, general and administrative	67,561	58,253	127,243	112,430
Research and development	8,453	8,205	16,322	15,670
Restructuring costs	169	4,004	898	7,753
Total operating costs and expenses	432,733	373,795	804,521	706,701
Operating income	86,411	38,086	150,075	57,434
Other income (expense), net	(451)	27	(282)	665
Interest expense	(1,781)	(1,987)	(3,674)	(3,972)
Interest income	5,790	2,343	10,286	4,396
Income before income taxes and gain on OFS BrightWave note receivable	89,969	38,469	156,405	58,523
Income tax expense before income tax provision on gain on OFS BrightWave note receivable	(28,840)	(10,448)	(49,421)	(17,775)
Income before gain on OFS BrightWave note receivable	61,129	28,021	106,984	40,748
Gain on OFS BrightWave note receivable, net of tax of $11,175		18,625		18,625
Net income	$ 61,129	$ 46,646	$ 106,984	$ 59,373
Net income per share:				
Basic	$ 1.00	$ 0.80	$ 1.76	$ 1.03
Assuming dilution	$ 0.83	$ 0.65	$ 1.46	$ 0.85
Weighted average shares outstanding:				
Basic	61,380	58,502	60,817	57,626
Assuming dilution	74,755	72,221	74,207	71,519

See notes to condensed consolidated financial statements.

CommScope, Inc.
Condensed Consolidated Balance Sheets
(Unaudited In thousands, except share amounts)

	June 30, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 247,647	$ 276,042
Short-term investments	241,998	151,868
Total cash, cash equivalents and short-term investments	489,645	427,910
Accounts receivable, less allowance for doubtful accounts of $13,685 and $13,461, respectively	275,452	186,824
Inventories, net	179,946	153,596
Prepaid expenses and other current assets	12,884	14,914
Deferred income taxes	28,173	24,556
Total current assets	986,100	807,800
Property, plant and equipment, net	235,867	242,012
Goodwill	153,884	151,378
Other intangibles, net	70,851	63,967
Deferred income taxes	15,918	15,493
Other assets	22,652	21,823
Total Assets	$ 1,485,272	$ 1,302,473
Liabilities and Stockholders Equity		
Accounts payable	$ 98,558	$ 74,927
Other accrued liabilities	102,368	95,316
Current portion of long-term debt	16,800	13,000
Total current liabilities	217,726	183,243
Long-term debt	250,000	271,100
Pension and postretirement benefit liabilities	90,232	89,995
Other noncurrent liabilities	30,588	19,031
Total Liabilities	588,546	563,369
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, $.01 par value; Authorized shares: 20,000,000; Issued and outstanding shares: None at June 30, 2007 and December 31, 2006		
Common stock, $.01 par value; Authorized shares: 300,000,000; Issued shares, including treasury stock: 71,799,216 at June 30, 2007 and 69,934,533 at December 31, 2006; Issued and outstanding shares: 61,599,216 at June 30, 2007 and 59,734,533 at December 31, 2006	718	699
Additional paid-in capital	585,410	532,344
Retained earnings	447,750	346,821
Accumulated other comprehensive income	8,383	4,775
Treasury stock, at cost: 10,200,000 shares at June 30, 2007 and December 31, 2006	(145,535)	(145,535)
Total Stockholders Equity	896,726	739,104
Total Liabilities and Stockholders Equity	$ 1,485,272	$ 1,302,473

See notes to condensed consolidated financial statements.

CommScope, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited In thousands)

	Six Months Ended June 30,	
	2007	**2006**
Operating Activities:		
Net income	$ 106,984	$ 59,373
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	24,912	28,409
Equity-based compensation	5,000	2,129
Deferred income taxes	(7,730)	6,904
Gain on OFS BrightWave note receivable		(29,800)
Changes in assets and liabilities:		
Accounts receivable	(84,623)	(51,446)
Inventories	(20,985)	(26,902)
Prepaid expenses and other current assets	2,112	3,037
Accounts payable and other accrued liabilities	32,153	15,387
Other noncurrent liabilities	1,658	(8,485)
Other	(1,622)	(1,951)
Net cash provided by (used in) operating activities	57,859	(3,345)
Investing Activities:		
Additions to property, plant and equipment	(11,248)	(15,050)
Proceeds from OFS BrightWave note receivable		29,800
Net purchases of short-term investments	(90,130)	(8,680)
Proceeds from disposal of fixed assets	97	550
Cash paid for acquisitions	(16,392)	(13,810)
Net cash used in investing activities	(117,673)	(7,190)
Financing Activities:		
Principal payments on long-term debt	(17,300)	(6,500)
Proceeds from the issuance of shares under equity-based compensation plans	32,832	42,035
Tax benefit from the issuance of shares under equity-based compensation plans	15,253	12,981
Net cash provided by financing activities	30,785	48,516
Effect of exchange rate changes on cash	634	808
Change in cash and cash equivalents	(28,395)	38,789
Cash and cash equivalents, beginning of period	276,042	146,549
Cash and cash equivalents, end of period	$ 247,647	$ 185,338

See notes to condensed consolidated financial statements.

CommScope, Inc.
Condensed Consolidated Statements of Stockholders Equity
and Comprehensive Income
(Unaudited In thousands, except share amounts)

	Six Months Ended June 30, 2007	**2006**
Number of common shares outstanding:		
Balance at beginning of period	59,734,533	55,873,347
Issuance of shares under equity-based compensation plans	1,864,683	2,992,307
Balance at end of period	61,599,216	58,865,654
Common stock:		
Balance at beginning of period	$ 699	$ 661
Issuance of shares under equity-based compensation plans	19	30
Balance at end of period	$ 718	$ 691
Additional paid-in capital:		
Balance at beginning of period	$ 532,344	$ 462,842
Issuance of shares under equity-based compensation plans	32,813	42,005
Tax benefit from shares issued under equity-based compensation plans	15,253	12,981
Expiration of registration rights		500
Equity-based compensation expense recognized	5,000	2,129
Reclassification due to adoption of SFAS No. 123(R)		(8,980)
Balance at end of period	$ 585,410	$ 511,477
Deferred equity-based compensation:		
Balance at beginning of period	$	$ (8,980)
Reclassification due to adoption of SFAS No. 123(R)		8,980
Balance at end of period	$	$
Retained earnings:		
Balance at beginning of period	$ 346,821	$ 216,688
Net income	106,984	59,373
Impact of adoption of FIN 48	(6,055)	
Balance at end of period	$ 447,750	$ 276,061
Accumulated other comprehensive income (loss):		
Balance at beginning of period	$ 4,775	$ (3,651)
Other comprehensive income, net of tax	3,608	3,639
Balance at end of period	$ 8,383	$ (12)
Treasury stock, at cost:		
Balance at beginning and end of period	$ (145,535)	$ (145,535)
Total stockholders equity	$ 896,726	$ 642,682

	Three Months Ended June 30, 2007	**2006**	**Six Months Ended June 30, 2007**	**2006**
Comprehensive income:				
Net income	$ 61,129	$ 46,646	$ 106,984	$ 59,373
Other comprehensive income, net of tax:				
Foreign currency translation gain (loss) - foreign subsidiaries	344	982	844	(379)
Foreign currency transaction gain (loss) on long-term intercompany loans - foreign subsidiaries	2,068	321	3,214	4,770

Loss on derivative financial instrument designated as a net investment hedge	(122)	(581)	(224)	(752)
Amortization of unrecognized pension and other postretirement benefit amounts	(113)		(226)	
Total other comprehensive income, net of tax	2,177	722	3,608	3,639
Total comprehensive income	$ 63,306	$ 47,368	$ 110,592	$ 63,012

See notes to condensed consolidated financial statements.

CommScope, Inc.
Notes to Condensed Consolidated Financial Statements

(Unaudited In Thousands, Unless Otherwise Noted)

1. BACKGROUND AND BASIS OF PRESENTATION

Background

CommScope, Inc., through its wholly owned subsidiaries (CommScope or the Company), is a world leader in infrastructure solutions for communications networks. Our highly engineered cable and connectivity solutions enable a host of information-rich and interactive services that are delivered to the home, office and mobile devices. The Company focuses on the last mile in communications networks, which is the distribution access or final link to the customer. The Company believes it is a global leader in structured cabling solutions for business enterprise applications and broadband coaxial cables for the cable television industry. The Company also designs, manufactures and markets a broad line of high-performance electronic, coaxial and fiber optic cable and related products for data networking, Internet access, wireless communication, telephony and other broadband applications. In addition, the Company is an industry leader in the design and manufacture of environmentally secure enclosures to integrate complex equipment for digital subscriber line (DSL) and Fiber-to-the-Node (FTTN) deployments by telecommunication service providers in the United States.

On June 27, 2007, the Company announced an agreement to acquire Andrew Corporation (Andrew). Under the terms of the agreement, each share of Andrew common stock will be acquired for $15.00, comprised of $13.50 in cash and an additional $1.50 in either cash, CommScope common stock or a combination thereof, at CommScope s option. The total transaction value is approximately $2.6 billion, based on Andrew s estimated 176 million shares outstanding on a fully diluted basis, which includes shares issuable under Andrew s existing convertible notes. Andrew designs, manufactures and delivers equipment and solutions for the global communications infrastructure market. The transaction is expected to close, subject to customary closing conditions, before the end of 2007.

Basis of Presentation

The condensed consolidated balance sheet as of June 30, 2007, the condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2007 and 2006, and the condensed consolidated statements of cash flows and stockholders equity for the six months ended June 30, 2007 and 2006 are unaudited and reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of the interim period financial statements. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year.

The unaudited interim condensed consolidated financial statements of CommScope have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The significant accounting policies followed by the Company are set forth in Note 2 to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K). There were no changes in the Company s significant accounting policies during the three or six months ended June 30, 2007 other than the adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) as of January 1, 2007, which is discussed below. In addition, the Company reaffirms the use of estimates in the preparation of the financial statements as set forth in the 2006 Form 10-K as well as the use of estimates in the recognition and measurement of tax benefits arising from uncertain tax positions as required by FIN 48. These interim condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and notes thereto included in the 2006 Form 10-K.

Concentrations of Risk

Net sales to Anixter International Inc. and its affiliates (Anixter) accounted for approximately 26% and 27% of the Company s total net sales during the three and six months ended June 30, 2007, respectively, and approximately 32% and 31% of the Company s total net sales during the three and six months ended June 30, 2006, respectively. Sales to Anixter primarily originate within the Enterprise segment.

Net sales to Alcatel-Lucent, which primarily relate to their role as an original equipment manufacturer for a large telecommunications company, accounted for approximately 13% and 12% of the Company s total net sales during the three and six months ended June 30, 2007, respectively, and were less than 10% of the Company s total net sales for the three and six months ended June 30, 2006. Sales to Alcatel-Lucent primarily originate within the Carrier segment.

Other than Anixter and Alcatel-Lucent, no customer accounted for 10% or more of the Company s total net sales for the three and six months ended June 30, 2007 and 2006.

Accounts receivable from Anixter represented approximately 28% and accounts receivable from Alcatel-Lucent represented approximately 13% of net accounts receivable as of June 30, 2007. No other customer accounted for 10% or more of the Company s net accounts receivable as of June 30, 2007.

Product Warranties

The Company recognizes a liability for the estimated claims that may be paid under its customer warranty agreements to remedy potential deficiencies of quality or performance of the Company s products. These product warranties extend over periods ranging from one to twenty-five years from the date of sale, depending upon the product subject to the warranty. The Company records a provision for estimated future warranty claims as cost of sales based upon the historical relationship of warranty claims to sales and specifically-identified warranty issues. The Company bases its estimates on assumptions that are believed to be reasonable under the circumstances and revises its estimates, as appropriate, when events or changes in circumstances indicate that revisions may be necessary.

As of June 30, 2007, a specifically-identified warranty issue existed that resulted in an increase of $1.6 million to the product warranty accrual. Although the ultimate settlement of this warranty issue is uncertain, the Company does not believe it will have a material adverse effect on its results of operations. Activity in the product warranty accrual, included in other accrued liabilities, for the three and six months ended June 30, 2007 and 2006 consisted of the following:

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2007	**2006**	**2007**	**2006**
Product warranty accrual, beginning of period	$ 2,103	$ 2,346	$ 2,090	$ 2,035
Provision for warranty claims	1,829	232	1,843	679
Warranty claims paid	(220)		(221)	(136)
Product warranty accrual, end of period	$ 3,712	$ 2,578	$ 3,712	$ 2,578

Commitments and Contingencies

CommScope is either a plaintiff or a defendant in pending legal matters in the normal course of business; however, management believes none of these legal matters will have a materially adverse effect on the Company s financial statements upon final disposition. In addition, CommScope is subject to various federal, state, local and foreign laws and regulations governing the use, discharge, disposal and remediation of hazardous materials. Compliance with current laws and regulations has not had, and is not expected to have, a materially adverse effect on the Company s financial condition or results of operations.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the applicable period. Diluted net income per share is based on net income

adjusted for after-tax interest and amortization of debt issuance costs related to convertible debt, if dilutive, divided by the weighted average number of common shares outstanding adjusted for the dilutive effect of stock options, restricted stock, phantom stock, performance units and convertible securities.

Below is a reconciliation of net income and weighted average common shares and potential common shares outstanding for calculating diluted net income per share:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Numerator:				
Net income for basic net income per share	$ 61,129	$ 46,646	$ 106,984	$ 59,373
Effect of assumed conversion of 1% convertible senior subordinated debentures due 2024	629	629	1,258	1,258
Income available to common shareholders for diluted net income per share	$ 61,758	$ 47,275	$ 108,242	$ 60,631
Denominator:				
Weighted average number of common shares outstanding for basic net income per share	61,380	58,502	60,817	57,626
Effect of dilutive securities:				
Employee stock options (a)	1,408	2,073	1,469	2,277
Restricted stock, phantom stock and performance units	473	152	427	122
1% convertible senior subordinated debentures due 2024	11,494	11,494	11,494	11,494
Weighted average number of common and potential common shares outstanding for diluted net income per share	74,755	72,221	74,207	71,519

(a) No options to purchase common shares were excluded from the computation of net income per share, assuming dilution, for the three and six months ended June 30, 2007. Options to purchase approximately 0.6 million common shares were excluded from the computation of net income per share, assuming dilution, for the three and six months ended June 30, 2006 because they would have been anti-dilutive.

Income Tax Uncertainties

The Company adopted the provisions of FIN 48 as of January 1, 2007, resulting in a $4.2 million increase in the liability for unrecognized tax benefits with an offsetting reduction to opening retained earnings. In addition, the Company reduced a long-term deferred tax asset by $4.0 million with an offsetting reduction to opening retained earnings of $1.9 million and an increase of $2.1 million to long-lived assets as a purchase accounting adjustment. In the three and six months ended June 30, 2007, there was a $1.3 million and $1.9 million increase in the liability for unrecognized tax benefits, respectively.

The Company files a consolidated U.S. federal income tax return as well as consolidated or individual subsidiary returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or foreign income tax examinations by taxing authorities for years before 1997. The Internal Revenue Service (IRS) commenced an examination of the Company s 2004 and 2005 U.S. income tax returns in 2006 that is expected to be completed by the end of 2007. As of January 1, 2007, the IRS has proposed certain significant adjustments to the Company s research and development tax credit positions related to years prior to 2004. The Company is currently protesting those proposed adjustments. If unsuccessful, the Company anticipates that it is reasonably possible that an additional payment will be made in the following twelve months, but the Company does not believe that any such payment would be material to the Company s financial position. It is reasonably possible that the unrecognized tax benefits arising from other positions taken by the Company may significantly increase or decrease in the next 12 months, but the Company does not expect any such adjustments to be material to the Company s financial position or results of operations.

As of January 1, 2007, the Company s liability for unrecognized tax benefits of $15.0 million included $12.9 million that, if recognized, would favorably affect the effective tax rate in future periods.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of January 1, 2007, the Company had accrued approximately $4.7 million for the payment of interest and penalties. No material changes to the accrued amounts occurred in the three and six months ended June 30, 2007.

Impact of Newly Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires that the underfunded or overfunded position of defined benefit plans be fully recognized as a liability or asset on the balance sheet of the sponsor. SFAS No. 158 does not change how the expense related to such plans is determined. The Company s accrued benefit liability was adjusted as of December 31, 2006 to fully recognize the underfunded portion of the Company s plans as a result of implementing SFAS No. 158. The provisions of SFAS No. 158 requiring that plan assets and obligations be measured as of the year-end balance sheet date are not required to be adopted until December 31, 2008, though earlier adoption is permitted. The Company does not expect that there will be a material impact on results of operations or financial position from applying the provisions to be adopted by 2008.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which gives companies the option to carry most financial assets or liabilities at fair value, with changes in fair value recorded in earnings. The Company is required to adopt SFAS No. 159 on January 1, 2008. The Company currently does not plan to measure any of its financial assets and liabilities at fair value under the provisions of SFAS No. 159 and, therefore, does not anticipate a material impact to its results of operations or financial position related to the adoption of this standard.

2. ACQUISITIONS

Signal Vision, Inc.

On May 1, 2007, CommScope acquired substantially all of the assets and assumed certain current liabilities of Signal Vision, Inc., a leading supplier of broadband radio frequency subscriber products, for approximately $19.0 million, of which $16.4 million was paid in cash and the balance is payable within two years. The acquisition is included within the Broadband segment.

The preliminary allocation of the purchase price, based on estimated fair values of the assets acquired, is as follows:

	Amortization Period (in years)	**Estimated Fair Value (in millions)**	
Inventory		$	4.4
Accounts receivable		2.5	
Machinery and equipment		0.1	
Intangible assets:			
Customer relationships	10	5.8	
Non-compete agreement	5	3.0	
Other identifiable intangible assets	6	1.1	
Goodwill		2.5	
Less: Current liabilities assumed		(0.4	)
Total purchase price		$	19.0

The weighted average estimated useful life of the amortizable intangible assets acquired is 7.9 years.

MC2 Product Line

On March 6, 2006, CommScope acquired the assets supporting the trunk and distribution cable television products business of Trilogy Communications, Inc., along with certain other assets. The purchase price of $13.8 million was paid in cash. The products acquired were integrated into the Broadband segment.

The allocation of the purchase price, based on estimated fair values of the assets acquired, is as follows:

	Amortization Period (in years)	**Estimated Fair Value (in millions)**
Inventory		$ 4.9
Other current assets		0.3
Machinery and equipment		1.1
Intangible assets:		
Customer relationships	10	4.0
Non-compete agreement	7	1.7
Other identifiable intangible assets	10	1.8
Total purchase price		$ 13.8

The weighted average estimated useful life of the intangible assets acquired is 9.3 years.

Connectivity Solutions

In conjunction with the Company s acquisition of substantially all of the assets and assumption of certain liabilities of the Connectivity Solutions business of Avaya Inc. in January 2004, the Company issued approximately 1.8 million shares of CommScope common stock. These unregistered shares included registration rights and the Company established a liability at the time the shares were issued for such registration costs. During the six months ended June 30, 2006, the registration rights expired and the Company reversed the liability that had been established, resulting in an increase to additional paid-in capital of $0.5 million.

Andrew Corporation

On June 27, 2007, the Company announced an agreement to acquire Andrew s common stock for $15.00 per share, comprised of $13.50 per share in cash and an additional $1.50 per share in either cash, CommScope common stock or a combination thereof, at CommScope s option. The total transaction value is approximately $2.6 billion, based on Andrew s estimated 176 million shares outstanding on a fully diluted basis, which includes shares issuable under Andrew s existing convertible notes. Andrew designs, manufactures and delivers equipment and solutions for the global communications infrastructure market. The transaction is expected to close, subject to customary closing conditions, before the end of 2007.

3. BALANCE SHEET DATA

Short-term Investments

At June 30, 2007 and December 31, 2006, the Company s short-term investments were composed of the following:

	June 30, 2007	**December 31, 2006**
Available for sale	$ 192,113	$ 131,868
Held-to-maturity	49,885	20,000
	$ 241,998	$ 151,868

At June 30, 2007, the held-to-maturity short-term investments were composed of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt obligations	$ 49,885	$ 6	$	$ 49,891

At December 31, 2006, the held-to-maturity short-term investments were composed of the following:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt obligations	$ 10,000	$	$	$ 10,000
Federal agency notes	10,000		(3)	9,997
	$ 20,000	$	$ (3)	$ 19,997

Inventories

	June 30, 2007	December 31, 2006
Raw materials	$ 61,985	$ 56,888
Work in process	44,350	38,936
Finished goods	73,611	57,772
	$ 179,946	$ 153,596

4. LONG-TERM DEBT

	June 30, 2007	December 31, 2006
Senior secured term loan	$ 16,800	$ 23,300
1% convertible senior subordinated debentures	250,000	250,000
IDA notes		10,800
	266,800	284,100
Less: current portion	(16,800)	(13,000)
	$ 250,000	$ 271,100

See Note 9 in the Notes to the Consolidated Financial Statements in the 2006 Form 10-K for information on the terms and conditions of the senior secured credit facility. As of June 30, 2007, the Company had availability of approximately $96 million and no outstanding borrowings under the senior secured revolving credit facility. The interest rate on the senior secured term loan was 6.86% and 6.87% at June 30, 2007 and December 31, 2006, respectively. Management believes the Company was in compliance with all of its covenants under this facility as of June 30, 2007.

As of June 30, 2007, the entire remaining balance of the senior secured term loan was included in the current portion of long-term debt due to management s intent to repay the outstanding balance of the loan within the next twelve months. On May 1, 2007, the Company redeemed the IDA notes.

See Note 9 in the Notes to the Consolidated Financial Statements in the 2006 Form 10-K for information on the terms and conditions of the 1% convertible senior subordinated debentures. The estimated fair value of the Company s convertible debentures as of June 30, 2007 and December 31, 2006 was $706.3 million and $370.3 million, respectively.

In conjunction with the proposed Andrew acquisition, the Company has received debt commitments for an aggregate of $2.55 billion in senior secured credit facilities consisting of a $2.3 billion seven-year senior secured term loan facility and a $250 million six-year senior secured revolving credit facility. The debt commitments, which are subject to closing the acquisition and the satisfaction of other customary conditions, provide for a variable interest rate based on LIBOR plus at least 175 basis points but not greater than 275 basis points, depending on the Company s debt ratings as promulgated by Standard and Poor s and Moody s, among other items. The senior secured credit facilities are expected to be secured by substantially all of the Company s domestic assets. The debt commitments expire on December 31, 2007 but will be extended to March 31, 2008 if the merger agreement is extended to such date in accordance with its terms.

5. RESTRUCTURING CHARGES

In August 2005, the Board of Directors of CommScope adopted global manufacturing initiatives to reduce costs by improving manufacturing efficiency and to enhance the Company s long-term competitive position. Implementation of these initiatives includes shifting significant Enterprise and Broadband segment cable production capacity among CommScope s global facilities, consolidating operations at the CSMI Omaha facility into one building and closing a Broadband segment manufacturing facility in Scottsboro, Alabama in late 2006. As a result of these initiatives, the Company recognized pretax charges during the three and six months ended June 30, 2007 and 2006 as follows:

	Enterprise Segment	**Broadband Segment**	**Carrier Segment**	**Total**
Three months ended June 30, 2007	$	$ 169	$	$ 169
Six months ended June 30, 2007	488	324	86	898
Three months ended June 30, 2006	2,833	818	353	4,004
Six months ended June 30, 2006	5,843	1,557	353	7,753

The activity within the liability (included in other accrued liabilities) for these restructuring initiatives for the three and six months ended June 30, 2007 and 2006 was as follows:

	Employee-Related Costs	**Equipment Relocation Costs**	**Asset Impairment Charges**	**Total**
Balance as of March 31, 2007	$ 353	$	$	$ 353
Additional charge recorded	(2)	171		169
Cash paid	(134)	(171)		(305)
Balance as of June 30, 2007	$ 217	$	$	$ 217
Balance as of December 31, 2006	$ 1,510	$	$	$ 1,510
Additional charge recorded	(98)	996		898
Cash paid	(1,195)	(996)		(2,191)
Balance as of June 30, 2007	$ 217	$	$	$ 217
Balance as of March 31, 2006	$ 2,177	$	$	$ 2,177
Additional charge recorded	2,092	2,009	(97)	4,004
Cash paid	(2,337)	(2,009)	97	(4,249)
Balance as of June 30, 2006	$ 1,932	$	$	$ 1,932
Balance as of December 31, 2005	$ 8,087	$	$	$ 8,087
Additional charge recorded	4,032	3,818	(97)	7,753
Cash paid	(10,187)	(3,818)	97	(13,908)
Balance as of June 30, 2006	$ 1,932	$	$	$ 1,932

Employee-related costs include the expected severance costs and related fringe benefits, accrued over the remaining period employees are required to work in order to receive severance benefits. Additional pretax employee-related costs of less than $0.1 million are expected to be recognized during the balance of 2007 to complete the global manufacturing initiatives.

Equipment relocation costs relate directly to shifting manufacturing capacity among our global manufacturing facilities and include costs to uninstall, pack, ship and re-install equipment as well as the costs to prepare the receiving facility to accommodate the equipment. These costs are recognized as the expenses are incurred, and additional pretax costs of less than $0.1 million are expected to be recognized during the balance of 2007 to complete the global manufacturing initiatives.

No asset impairment charges were recognized during the three and six months ended June 30, 2007 and an immaterial gain was recognized during the three and six months ended June 30, 2006 related to the sale of excess equipment. The Company is attempting to sell land and buildings that are no longer in use. These assets have a net carrying value of $15.5 million as of June 30, 2007 and $15.8 million as of December 31, 2006 and are reflected as property, plant and equipment in the Condensed Consolidated Balance Sheets. Additional net impairment charges may be incurred or gains realized upon the disposition of these or other excess assets.

6. OFS BRIGHTWAVE, LLC

On June 30, 2006, CommScope received a payment of $29.8 million plus accrued interest in full satisfaction of the amount owed by OFS BrightWave, LLC (OFS BrightWave) under a $30 million Revolving Credit Agreement (the Agreement) dated November 16, 2001 and the Agreement was terminated. The carrying value of the note had previously been reduced to zero as a result of recording CommScope s equity in losses of OFS BrightWave prior to the sale of CommScope s equity interest in OFS BrightWave in June 2004 and an impairment charge of $11.1 million at the time of the sale.

The recovery of the OFS BrightWave note resulted in a pretax gain of $29.8 million ($18.6 million after-tax, or $0.26 per diluted share for the three and six months ended June 30, 2006).

7. DERIVATIVES AND HEDGING ACTIVITIES

As of June 30, 2007 and 2006, the only derivative financial instrument outstanding was a cross currency swap of U.S. dollars for euros with a notional amount of $14.0 million. A portion of the swap was designated and documented as a hedge of the Company s net investment in its Belgian subsidiary to reduce the volatility in stockholders equity caused by changes in euro exchange rates and the remainder of the swap was designated as a hedge against fluctuations in the fair value of certain of the Company s euro-denominated assets. The fair value of the derivative instrument, reflected in other noncurrent liabilities, was approximately $7.4 million and $7.1 million as of June 30, 2007 and December 31, 2006, respectively.

Pretax losses of $49 and $163 on the portion of the swap designated as a fair value hedge are reflected in earnings during the three months ended June 30, 2007 and 2006, respectively. Pretax losses of $90 and $211 on the portion of the swap designated as a fair value hedge are reflected in earnings during the six months ended June 30, 2007 and 2006, respectively. The designations of the hedging instrument were effective as of June 30, 2007 and 2006, and are expected to continue to be effective for the duration of the agreement, resulting in no anticipated hedge ineffectiveness.

There were no reclassifications from other comprehensive income (loss) to earnings related to derivatives and hedging activities during the three and six months ended June 30, 2007 and 2006.

Activity in the accumulated net loss on derivative instruments included in accumulated other comprehensive income (loss) consisted of the following:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Accumulated net loss on derivative instruments, beginning of period	$ (5,303)	$ (4,445)	$ (5,201)	$ (4,274)
Net loss on derivative financial instrument designated as a net investment hedge	(122)	(581)	(224)	(752)
Accumulated net loss on derivative instruments, end of period	$ (5,425)	$ (5,026)	$ (5,425)	$ (5,026)

During the three months ended June 30, 2007 and 2006, the income tax benefit related to the loss on the derivative financial instrument designated as a net investment hedge and reported within other comprehensive income was $72 and $341, respectively. During the six months ended June 30, 2007 and 2006, the income tax benefit related to the loss on the derivative financial instrument designated as a net investment hedge and reported within other comprehensive income was $132 and $442, respectively.

8. EMPLOYEE BENEFIT PLANS

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended June 30,			
	2007	2006	2007	2006
Service cost	$ 785	$ 825	$ 1,039	$ 1,128
Interest cost	1,804	1,731	1,319	1,229
Recognized actuarial loss		14	25	140
Amortization of prior service costs	(193)	(97)	(21)	(131)
Amortization of transition obligation	11	10		
Return on plan assets	(2,195)	(1,972)	(119)	(139)
Net periodic benefit cost	$ 212	$ 511	$ 2,243	$ 2,227

	Six Months Ended June 30,			
	2007	2006	2007	2006
Service cost	$ 1,563	$ 1,639	$ 2,078	$ 2,256
Interest cost	3,605	3,456	2,638	2,458
Recognized actuarial loss		27	51	280
Amortization of prior service costs	(386)	(194)	(43)	(263)
Amortization of transition obligation	22	20		
Return on plan assets	(4,386)	(3,939)	(237)	(278)
Net periodic benefit cost	$ 418	$ 1,009	$ 4,487	$ 4,453

The Company contributed approximately $5.3 million and $5.5 million to its pension plans during the three and six months ended June 30, 2007, respectively, and anticipates making additional contributions of approximately $0.4 million to these plans during 2007. The Company contributed approximately $0.8 million and $1.7 million to the postretirement benefit plans during the three and six months ended June 30, 2007, respectively, and anticipates making additional contributions of approximately $1.7 million to these plans during 2007.

During the three and six months ended June 30, 2007, the income tax benefit related to the amortization of unrecognized pension and other postretirement benefit amounts reported within other comprehensive income was $70 and $140, respectively.

9. EQUITY-BASED COMPENSATION PLANS

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), Share-Based Payment, using the modified prospective transition method. The following table summarizes the impact of equity-based compensation expense recognized in the Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2007 and 2006:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Cost of sales	$ 596	$ 328	$ 1,199	$ 626
Selling, general and administrative expense	1,512	664	3,295	1,275
Research and development expense	251	117	506	228
Equity-based compensation expense before taxes	2,359	1,109	5,000	2,129
Less: Related income tax benefits	(767)	(369)	(1,646)	(709)
Equity-based compensation expense, net of taxes	$ 1,592	$ 740	$ 3,354	$ 1,420

As of June 30, 2007, $17.0 million of total unrecognized compensation costs related to non-vested awards

are expected to be recognized over a weighted average period of 1.7 years. There were no significant capitalized equity-based compensation costs at June 30, 2007.

Stock Options

The following table summarizes the stock option activity for the three and six months ended June 30, 2007 (in thousands, except per share data):

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Outstanding and expected to vest at March 31, 2007	3,536	$ 19.29		$ 83,521
Exercised	(661)	$ 20.48		$ 18,431
Expired or forfeited	(1)	$ 30.42	$ 13.85	
Outstanding and expected to vest at June 30, 2007	2,874	$ 19.00		$ 113,074
Outstanding and expected to vest at December 31, 2006	4,742	$ 18.47		$ 61,192
Exercised	(1,865)	$ 17.61		$ 43,958
Expired or forfeited	(3)	$ 35.95	$ 15.64	
Outstanding and expected to vest at June 30, 2007	2,874	$ 19.00		$ 113,074
Exercisable at June 30, 2007	2,560	$ 18.26		$ 102,636

The total intrinsic value of options exercised during the three and six months ended June 30, 2006 was $16.9 million and $38.1 million, respectively. All of the non-vested options at June 30, 2007 are expected to vest as they are primarily held by senior management and directors.

Key input assumptions used to estimate the fair value of stock options include the grant price of the award, the expected option term, volatility of the Company s stock, the risk-free rate and the Company s projected dividend yield. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in estimating the fair values of CommScope stock options. Estimates of fair value are not intended to predict actual future events or the value that will ultimately be realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under SFAS No. 123(R).

The following table presents the weighted-average assumptions used in the Black-Scholes model to estimate the fair value of stock option awards granted during the three and six months ended June 30, 2006. No stock option awards were granted during the three and six months ended June 30, 2007.

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Expected option term (in years)	5.0	5.0
Risk-free interest rate	4.9 %	4.5 %
Expected volatility	45 %	45 %
Expected dividend yield	0 %	0 %
Weighted-average fair value at grant date	$ 13.74	$ 10.25

The exercise prices of outstanding options at June 30, 2007 were in the following ranges:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Shares (in thousands)**	**Weighted Average Remaining Contractual Life (in years)**	**Weighted Average Exercise Price Per Share**	**Shares (in thousands)**	**Weighted Average Exercise Price Per Share**
$7.43 to $16.50	1,318	5.5	$ 13.06	1,298	$ 13.03
16.51 to 24.00	1,045	6.2	$ 18.52	915	$ 18.32
24.01 to 47.06	511	4.6	$ 35.35	347	$ 37.67
$7.43 to $47.06	2,874	5.6	$ 19.00	2,560	$ 18.26

Performance Share Units

The following table summarizes the performance share unit activity for the three and six months ended June 30, 2007 (in thousands, except per share data):

	Units	**Weighted Average Grant Date Fair Value Per Share**
Outstanding and non-vested at March 31, 2007	448	$ 23.34
Forfeited	(3)	$ 23.19
Outstanding and non-vested at June 30, 2007	445	$ 23.34
Outstanding and non-vested at December 31, 2006	449	$ 23.26
Forfeited	(4)	$ 22.54
Outstanding and non-vested at June 30, 2007	445	$ 23.34

Restricted Stock Units

The following table summarizes the restricted stock unit activity for the three and six months ended June 30, 2007 (in thousands, except per share data):

	Units	**Weighted Average Grant Date Fair Value Per Share**
Outstanding and non-vested at March 31, 2007	506	$ 24.97
Granted	1	$ 44.81
Forfeited	(5)	$ 24.91
Outstanding and non-vested at June 30, 2007	502	$ 25.03
Outstanding and non-vested at December 31, 2006	503	$ 24.78
Granted	9	$ 38.09
Forfeited	(10)	$ 25.06
Outstanding and non-vested at June 30, 2007	502	$ 25.03

10. SEGMENTS

The Company defines its reportable segments by major product category, which is consistent with the manner in which the business is managed, as follows: Enterprise, Broadband and Carrier.

The Enterprise segment consists mainly of structured cabling systems for business enterprise applications and connectivity solutions for wired and wireless networks within organizations. The segment also includes coaxial cable for various video and data applications that are not related to cable television.

The Broadband segment consists mainly of coaxial cable, fiber optic cable and conduit for cable television system operators. These products support multi-channel video, voice and high-speed data services for residential and commercial customers using Hybrid Fiber Coaxial architecture.

The Carrier segment consists of secure environmental enclosures for electronic devices and equipment, cables and components used by wireless providers to connect antennae to transmitters and connectivity solutions for telephone central offices. These products are primarily used by telecommunications service providers or carriers.

The following tables provide summary financial information by segment as of June 30, 2007 and December 31, 2006 and for the three and six months ended June 30, 2007 and 2006 (in millions):

	As of June 30, 2007	**As of December 31, 2006**
Identifiable segment related assets:		
Enterprise	$ 394.8	$ 375.1
Broadband	420.5	365.0
Carrier	136.3	94.5
Total identifiable segment related assets	951.6	834.6
Reconciliation to total assets:		
Cash, cash equivalents and short-term investments	489.6	427.9
Deferred income taxes	44.1	40.0
Total assets	$ 1,485.3	$ 1,302.5

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Net sales:				
Enterprise	$ 239.4	$ 205.1	$ 440.3	$ 377.2
Broadband	163.4	136.5	311.5	262.4
Carrier	116.7	71.0	203.8	125.7
Inter-segment eliminations	(0.4)	(0.7)	(1.0)	(1.2)
Consolidated net sales	$ 519.1	$ 411.9	$ 954.6	$ 764.1
Operating income:				
Enterprise	$ 47.8	$ 23.8	$ 77.3	$ 35.1
Broadband	20.3	4.5	41.9	12.5
Carrier	18.3	9.8	30.9	9.8
Consolidated operating income	$ 86.4	$ 38.1	$ 150.1	$ 57.4

Management will consider revisions to the reportable segments upon closing and integrating the Andrew acquisition.

11. SUPPLEMENTAL CASH FLOW INFORMATION

	Six Months Ended June 30, 2007	2006
Cash paid during the period for:		
Income taxes	$ 27,724	$ 7,747
Interest	2,628	3,002
Noncash investing and financing activities:		
Fair value, less costs to sell, of held for sale assets transferred from property, plant and equipment to other current assets	$	$ 10,128

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 for the three and six months ended June 30, 2007 and 2006 is provided to increase the understanding of, and should be read in conjunction with, the unaudited condensed consolidated financial statements and accompanying notes included in this document as well as the audited consolidated financial statements, related notes thereto and management s discussion and analysis of financial condition and results of operations, including management s discussion and analysis about the application of critical accounting policies, included in our 2006 Annual Report on Form 10-K.

Overview

CommScope is a world leader in the infrastructure solutions for communications networks. Our highly engineered cable and connectivity solutions enable a host of information-rich and interactive services that are delivered to the home, office and mobile devices. We focus on the last mile in communications networks, which is the distribution access or final link to the customer. We believe we are a global leader in structured cabling for business enterprise applications and broadband coaxial cables for the cable television industry. We also design, manufacture and market a broad line of high-performance electronic, coaxial and fiber optic cable and related products for data networking, Internet access, wireless communication, telephony and other broadband applications. In addition, we are an industry leader in the design and manufacture of environmentally secure enclosures to integrate complex equipment for digital subscriber line (DSL) and Fiber-to-the-Node (FTTN) deployments by telecommunication service providers in the United States.

On June 27, 2007, the Company announced an agreement to acquire Andrew Corporation (Andrew). Under the terms of the agreement, each share of Andrew common stock will be acquired for $15.00, comprised of $13.50 in cash and an additional $1.50 in either cash, CommScope common stock or a combination thereof, at CommScope s option. The total transaction value is approximately $2.6 billion, based on Andrew s estimated 176 million shares outstanding on a fully diluted basis, which includes shares issuable under Andrew s existing convertible notes. Andrew designs, manufactures and delivers equipment and solutions for the global communications infrastructure market. The transaction is expected to close, subject to customary closing conditions, before the end of 2007. For the fiscal year ended September 30, 2006, Andrew s Annual Report on Form 10-K reported total assets of $2.4 billion, net revenue of $2.1 billion and a net loss of $34.3 million, which included a charge of $83.4 million to provide a full valuation allowance against certain deferred tax assets, among other special items. The results reported below do not reflect any actual or pro forma adjustments related to the acquisition. See Liquidity and Capital Resources Future Cash Needs for a discussion of the credit facilities that are expected to be utilized for borrowings necessary to pay the cash portion of the purchase price and other related cash needs.

CRITICAL ACCOUNTING POLICIES

There have been no changes in our critical accounting policies or significant accounting estimates as disclosed in our 2006 Annual Report on Form 10-K other than the implementation of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (see Note 1 in the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q).

COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 WITH THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

	Three Months Ended June 30,					
	2007		**2006**			
	Amount	**% of Net Sales**	**Amount**	**% of Net Sales**	**Dollar Change**	**% Change**
	(dollars in millions, except per share amounts)					
Net sales	$ 519.1	100.0 %	$ 411.9	100.0 %	$ 107.3	26.0 %
Gross profit	162.6	31.3	108.5	26.3	54.0	49.8
SG&A expense	67.6	13.0	58.3	14.1	9.3	16.0
R&D expense	8.5	1.6	8.2	2.0	0.2	3.0
Restructuring costs	0.2	0.0	4.0	1.0	(3.8)	(95.8)

Gain on OFS BrightWave note receivable			18.6	4.5	(18.6)	(100.0)
Net income	61.1	11.8	46.6	11.3	14.5	31.0
Net income per diluted share	0.83		0.65		0.18	27.7

	Six Months Ended June 30,					
	2006		2005			
	Amount	% of Net Sales	Amount	% of Net Sales	Dollar Change	% Change
	(dollars in millions, except per share amounts)					
Net sales	$ 954.6	100.0 %	$ 764.1	100.0 %	$ 190.5	24.9 %
Gross profit	294.5	30.9	193.3	25.3	101.3	52.4
SG&A expense	127.2	13.3	112.4	14.7	14.8	13.2
R&D expense	16.3	1.7	15.7	2.1	0.7	4.2
Restructuring costs	0.9	0.1	7.8	1.0	(6.9)	(88.4)
Gain on OFS BrightWave note receivable			18.6	2.4	(18.6)	(100.0)
Net income	107.0	11.2	59.4	7.8	47.6	80.2
Net income per diluted share	1.46		0.85		0.61	71.8

Net sales

The increase in net sales for the three and six months ended June 30, 2007 over the comparable prior year periods is attributable to domestic and international sales growth in each of our segments. These increases are largely the result of higher sales volume levels and price increases implemented primarily in the first half of 2006 in response to higher raw material costs. For further details by segment, see the section titled Segment Results below.

Gross profit (net sales less cost of sales)

Gross profit margin for the three months ended June 30, 2007 increased to 31.3% from 26.3% for the three months ended June 30, 2006 and to 30.9% from 25.3% for the comparable six months periods. The improved gross profit margins reflect the impact of improved manufacturing utilization as a result of higher sales volumes, changes in the product mix toward products that generate higher margins, cost savings achieved as a result of restructuring activities and price increases implemented primarily in the first half of 2006 that were largely in response to raw material cost increases.

We expect continued volatility in the costs of certain raw materials, such as copper, aluminum, steel, and plastics and other polymers that are derived from oil and natural gas. This volatility in raw material costs may reduce gross profit margin if we delay implementing price increases, are unable to achieve market acceptance of future price increases or implement price reductions in response to a rapid decline in raw material costs.

Selling, general and administrative expense

The increase in selling, general and administrative expense (SG&A) for the three and six months ended June 30, 2007 as compared to the same periods in 2006 was primarily due to higher marketing costs associated with the higher level of sales. The reduction in SG&A expense as a percentage of net sales is a result of the higher sales revenue.

Research and development

Research and development (R&D) expense increased by $0.2 million and $0.7 million for the three and six months ended June 30, 2007, respectively, as compared to the same periods in 2006. R&D expense as a percentage of net sales decreased modestly to 1.6% and 1.7% for the three and six months ended June 30, 2007, respectively, as compared to 2.0% and 2.1% for the comparable 2006 three and six month periods. The ongoing R&D activities generally relate to bringing new products to market and to modifying existing products to better serve our customers.

Restructuring Costs

We recognized pretax restructuring costs of $0.2 million and $0.9 million during the three and six months ended June 30, 2007, respectively, compared with $4.0 million and $7.8 million during the comparable periods

ended June 30, 2006, respectively. The 2007 costs resulted from the global manufacturing initiatives which began during the third quarter of 2005 and are substantially complete as of June 30, 2007.

We anticipate that we will recognize additional pretax employee-related and equipment relocation charges of up to $0.2 million to complete the implementation of the global manufacturing initiatives during the balance of 2007.

As of June 30, 2007, we owned $15.5 million of land and buildings that, as a result of the global manufacturing initiatives, are no longer in use and is being marketed for sale. Additional restructuring losses may be incurred or gains realized upon disposition of these or other excess assets.

Net interest income

We recognized net interest income of $4.0 million and $6.6 million for the three and six months ended June 30, 2007, respectively, compared to $0.4 million for both of the comparable prior year periods. The increases were due to the impact of significantly higher balances of invested funds (cash, cash equivalents and short-term investments) as well as improved rates of return on invested balances as a result of increases in LIBOR and other short-term interest rates. Interest expense for the three and six month periods declined slightly from the comparable prior year periods as a result of lower levels of outstanding debt due to scheduled principal repayments and the repayment of the IDA notes in May 2007, offset by the impact of increases in LIBOR and other short-term interest rates. Our weighted average effective interest rate on outstanding borrowings, including amortization of associated long-term financing costs, was slightly lower at 2.42% as of June 30, 2007 compared to 2.68% as of December 31, 2006, primarily as a result of the repayment of the IDA notes.

Income taxes

Our effective income tax rate was 32% for the three and six months ended June 30, 2007 compared to 27% and 30%, excluding the impact of the gain on the OFS note receivable, for the three and six months ended June 30, 2006, respectively. Our effective income tax rate is generally lower than the U.S. statutory rate due to benefits received from international activities that are taxed at lower rates. The higher rates for the 2007 period are due to changes in the relationship of domestic to international income and among the various international jurisdictions where we have activities. In addition, we realized benefits in the second quarter of 2006 as a result of favorable outcomes on various matters raised during federal and state income tax audits that lowered the effective tax rate for the three and six months ended June 30, 2006.

Gain on OFS BrightWave note receivable

On June 30, 2006, we received a payment of $29.8 million plus accrued interest in full satisfaction of the amount owed by OFS BrightWave, LLC (OFS BrightWave) under a $30 million Revolving Credit Agreement that was by its terms scheduled to be repaid no later than November 16, 2006. The carrying value of the note had previously been reduced to zero as a result of recording our equity in losses of OFS BrightWave prior to the sale of our interest in OFS BrightWave in June 2004 and an impairment charge of $11.1 million at the time of the sale. The Revolving Credit Agreement was terminated on June 30, 2006.

The reported gain on the OFS BrightWave note receivable is net of a tax provision of $11.2 million.

Segment Results

	Three Months Ended June 30,					
	2007		2006			
	Amount	% of Net Sales	Amount	% of Net Sales	Dollar Change	% Change
	(dollars in millions)					
Net sales by segment:						
Enterprise	$ 239.4	46.1 %	$ 205.1	49.8 %	$ 34.3	16.7 %
Broadband	163.4	31.5	136.5	33.1	26.9	19.7
Carrier	116.7	22.4	71.0	17.2	45.7	64.5
Inter-segment eliminations	(0.4)	(0.0)	(0.7)	(0.1)	0.4	
Consolidated net sales	$ 519.1	100.0 %	$ 411.9	100.0 %	$ 107.3	26.0 %
Total domestic sales	$ 359.0	69.2 %	$ 279.0	67.7 %	$ 80.0	28.7 %
Total international sales	160.1	30.8	132.9	32.3	27.2	20.5
Total worldwide sales	$ 519.1	100.0 %	$ 411.9	100.0 %	$ 107.3	26.0 %
Operating income by segment:						
Enterprise	$ 47.8	20.0 %	$ 23.8	11.6 %	$ 24.0	100.6 %
Broadband	20.3	12.4	4.5	3.3	15.8	355.3
Carrier	18.3	15.7	9.8	13.8	8.5	86.8
Consolidated operating income	$ 86.4	16.6 %	$ 38.1	9.2 %	$ 48.3	126.9 %

	Six Months Ended June 30,					
	2007		2006			
	Amount	% of Net Sales	Amount	% of Net Sales	Dollar Change	% Change
	(dollars in millions)					
Net sales by segment:						
Enterprise	$ 440.3	46.1 %	$ 377.2	49.4 %	$ 63.1	16.7 %
Broadband	311.5	32.6	262.4	34.3	49.1	18.7
Carrier	203.8	21.4	125.7	16.5	78.1	62.2
Inter-segment eliminations	(1.0)	(0.1)	(1.2)	(0.2)	0.2	
Consolidated net sales	$ 954.6	100.0 %	$ 764.1	100.0 %	$ 190.5	24.9 %
Total domestic sales (1)	$ 658.2	69.0 %	$ 522.5	68.4 %	$ 135.7	26.0 %
Total international sales (1)	296.4	31.0	241.6	31.6	54.8	22.7
Total worldwide sales	$ 954.6	100.0 %	$ 764.1	100.0 %	$ 190.5	24.9 %
Operating income by segment:						
Enterprise	$ 77.3	17.6 %	$ 35.1	9.3 %	$ 42.2	119.8 %
Broadband	41.9	13.5	12.5	4.7	29.4	235.7
Carrier	30.9	15.2	9.8	7.8	21.1	215.7
Consolidated operating income	$ 150.1	15.7 %	$ 57.4	7.5 %	$ 92.7	161.3 %

(1) For the six months ended June 30, 2007 and 2006, domestic sales of $8.3