

COMMSCOPE INC
Form 10-K
March 01, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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, S.E.
P.O. Box 339
Hickory, North Carolina
(Address of principal executive offices)

28602
(Zip Code)

(828) 324-2200
(Telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$.01 per share
Preferred Stock Purchase Rights

Name of each exchange on which registered
New York Stock Exchange
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer Non-accelerated filer

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

The aggregate market value of the shares of Common Stock held by non-affiliates of the Registrant was approximately \$940 million as of June 30, 2005 (based on the closing price for the Common Stock on the New York Stock Exchange on that date). For purposes of this computation, shares held by affiliates and by directors and officers of the Registrant have been excluded.

As of February 17, 2006 there were 56,615,704 shares of the Registrant's Common Stock outstanding.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for the 2006 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

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PART I

Unless the context otherwise requires, references to CommScope, Inc., CommScope, or we, us, or our are to CommScope, Inc. and its direct and indirect subsidiaries, on a consolidated basis.

This Form 10-K includes Forward-looking Statements within the meaning of the Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995 and related laws. These forward-looking statements are identified, including without limitation, by their use of such terms and phrases as intends, intend, intended, goal, estimate, estimates, expects, expect, expected, project, projects, plans, anticipates, anticipated, should, think, thinks, designed to, foreseeable future, believe, believes and scheduled and similar. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. Item 1A of this Form 10-K sets forth more detailed information about the factors that may cause our actual results to differ, perhaps materially, from the views stated in such forward-looking statements. We do not intend, and are not undertaking any duty or obligation, to update any forward-looking statements to reflect developments or information obtained after the date of this Form 10-K.

ITEM 1. BUSINESS

General

CommScope, Inc. is a world leader in the design and manufacture of cable and connectivity solutions for communications networks. 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 a global leader in 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 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.

We are a global manufacturer, employing state-of-the-art processes in 12 manufacturing facilities on five continents. We sell our products directly to customers and through a global network of distributors, system integrators and value-added resellers. We sell our products in more than 120 countries.

CommScope, Inc. was incorporated in Delaware on January 28, 1997.

For the year ended December 31, 2005, our revenues were \$1.34 billion and our net income was \$50.0 million. Historically, our operating performance is typically weaker during the first and fourth quarters and stronger during the second and third quarters. For further discussion of our current and prior year domestic and international revenues, see Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements included elsewhere in this Form 10-K.

Our Acquisition of Connectivity Solutions

On January 31, 2004, we acquired the Connectivity Solutions business (Connectivity Solutions) from Avaya Inc. (Avaya). We acquired Connectivity Solutions primarily to expand our position in the last mile of telecommunications, establish a leadership position in the global enterprise connectivity market and enhance our global growth opportunities. We believe that this complementary combination of our businesses creates the potential for significant synergies and positions us as a leading provider of cable products and apparatus to both the enterprise and telecommunications markets.

We acquired substantially all of the assets, subject to specified current liabilities, and also assumed approximately \$65 million of other specified liabilities, primarily related to employee benefits, of Connectivity Solutions, for approximately \$250 million in cash and approximately 1.8 million shares of our common stock valued at \$32.4 million. The Connectivity Solutions business, as operated by Avaya, was organized into three product groups as follows:

- SYSTIMAX®, which is a global leader in the design, development, manufacture and marketing of physical layer end-to-end structured cabling solutions for connecting telephones, workstations, local area networks (LANs), storage area networks and other critical communication devices through buildings or across campuses of businesses, enterprises and other organizations.
- Integrated Cabinet Solutions (ICS), which provides secure environmental enclosures engineered to protect and optimize the performance of DSL, wireless and other electronic equipment, primarily in outdoor locations of telecommunications providers.
- ExchangeMAX®, which is a provider of physical layer structured cabling solutions supporting central offices of telecommunications service providers in the U.S. We intend to exit the twisted pair telephone central office cable business, but retain the ExchangeMAX apparatus business.

Our historical financial information and other information given as of a date prior to January 31, 2004 reflects the business of CommScope prior to the acquisition of Connectivity Solutions, unless the context specifically requires otherwise. Financial and other information included in this Form 10-K relating to the Connectivity Solutions business as operated by Avaya for periods prior to the acquisition is not necessarily indicative of the future performance of the Connectivity Solutions business as operated by us. For a description of the factors affecting such future performance, see Item 1A.

Strategy

Our strategic vision is to be the leading global developer, producer and seller of high-performance communications solutions for deployment by communication service providers and enterprise users. Our acquisition and the continuing integration of Connectivity Solutions are important milestones in achieving this objective. We strive to be recognized for the superior quality and performance of our products, outstanding service to our customers, excellence of our employees and value we deliver for our stockholders.

Our business strategy focuses on enhancing operational efficiency and internal growth from our existing businesses. We intend to enhance revenue growth by developing proprietary products and building upon our worldwide facilities and presence as well as our extensive global network of distributors, system integrators and value-added resellers. We will also consider opportunities for acquisitions, joint ventures or other investments that are a complementary fit strategically with our existing business. Our industry-leading research and development teams continue to spearhead innovative developments in cable and connectivity. We plan to build upon this legacy of innovation and leverage our portfolio of more than 1,300 worldwide patents and pending patent applications to provide leading-edge technology and new, high-performance cable and connectivity solutions products to our customers. We also intend to use our existing market channels to expand sales of our products.

We intend to improve efficiency by increasing operating focus, improving productivity and simplifying processes as we continue to integrate the Connectivity Solutions business. We also intend to maintain our emphasis on superior customer service, which we believe has helped us maintain our market leadership in enterprise and broadband applications.

Operating Segments

During 2003, our operations were conducted within one reportable business segment, based on the similarity of products, production processes, distribution methods and regulatory environment. During 2004, as a result of the acquisition of Connectivity Solutions, we reported results for two business segments: the Cable segment (53% of sales), which was the same as CommScope's cable business prior to the acquisition of Connectivity Solutions, and the Connectivity Solutions segment (47% of sales), which was the acquired Connectivity Solutions business.

During 2005, as a result of the continued integration of the Connectivity Solutions business into our global operations and financial reporting systems, management changed the reportable segments used to evaluate results of operations. The new reportable segments are defined by major product category as follows: Enterprise, Broadband and Carrier. Results for prior periods have been restated to conform to the new reportable segments. Amounts reported for 2005 and 2004 include the results of the Connectivity Solutions business for the applicable periods since January 31, 2004, the date of the acquisition.

Net revenues are allocated among the reportable segments as follows:

	Year Ended December 31,					
	2005		2004		2003	
Enterprise	49.4	%	50.9	%	25.2	%
Broadband	34.4		36.7		70.1	
Carrier	16.2		12.4		4.7	
Total	100.0	%	100.0	%	100.0	%

See Note 18 in the Notes to the Consolidated Financial Statements included elsewhere in this Form 10-K for certain segment and geographic financial data relating to our business.

Enterprise

The Enterprise segment includes SYSTIMAX Solutions, which was acquired as part of the Connectivity Solutions acquisition, and Uniprise Solutions™, previously referred to as the LAN product line. Through these brands, we believe we are the leading global provider of structured cabling systems for business enterprise applications. A structured cabling system is the transmission network inside a building or campus of buildings that connects voice and data communication devices, video and building automation devices, switching equipment and other information management systems to one another as well as to outside communications networks. It includes all the in-building and outside plant campus cabling and associated distribution components from the point of demarcation where the building or campus cabling connects to outside communications networks. A structured cabling system consists of various components, including transmission media (cable), circuit administration hardware, connectors, jacks, plugs, adapters, transmission electronics, electrical protection devices, wireless access devices and support hardware. Cables are classified by their construction, their data transmission capability and the environments in which they can be installed. Components are used to build elements, each having a specific purpose that allows easy implementation, moves, changes and maintenance as customer requirements change. A well-designed distribution system is independent of the equipment it serves and is capable of interconnecting many different devices, including computer and peripheral equipment, analog and digital telephones, personal computers and servers.

We believe that business enterprises are faced with a growing need for higher bandwidth connectivity solutions as network traffic and the number of network devices increases. Applications such as storage area networks, streaming audio/video, multi-site collaboration, database downloads, grid computing and large file transfers create an increasing demand for bandwidth and higher-performance structured cabling

systems. While the rate of technology adoption or application development is difficult to predict, we believe that desktop bandwidth growth should continue to increase.

Broadband

We design, manufacture and market coaxial and fiber optic cable, most of which is used in the cable television industry. We are the world's largest manufacturer of coaxial cable and a leading domestic supplier of fiber optic cable for cable television and other video applications. Our coaxial and fiber optic cables are primarily used in Hybrid Fiber Coaxial (HFC) networks being deployed throughout the world. HFC networks utilize a combination of fiber optic and coaxial cable and are widely recognized as one of the most cost-effective ways to offer multi-channel video, voice and data services. Our broadband coaxial cables and zero water peak optical fiber cables provide bandwidth connectivity for services such as cable television, video on demand, high-speed Internet access, cable telephony and other interactive services.

Many other specialized markets or applications are served by multiple cable media such as coaxial, twisted pair, fiber optic or combinations of each. We are a leading producer of composite cables made of flexible coaxial and twisted copper pairs for full service communications providers worldwide. We also provide a variety of cable-in-conduit products for telecommunication applications.

Carrier

We also sell a variety of other solutions and products, including secure environmental enclosures, cables and components used by wireless providers to connect antennae to transmitters and structured cabling solutions for telephone central offices. These products are primarily used by telecommunication service providers or carriers.

Our ICS products are sturdy environmental enclosures for electronic devices and equipment deployed in the outside plant and inside buildings. Enclosures are designed to meet the needs of each customer, including thermal characteristics, and are used mostly by carriers to protect wireless equipment, transmission access equipment, switching equipment and broadband electronic equipment. Each cabinet is assembled, completely wired and system-tested to ensure high quality and ease of installation. We believe that we are a leading provider of environmental enclosures for domestic DSL and FTTH applications of telecommunications Original Equipment Manufacturers (OEMs) and carriers.

Our wireless products include innovative, high frequency cables and components that connect wireless antennae to their transmitters. Semi-flexible coaxial cables are used to connect the antennae located at the top of wireless antenna towers to the radios and power sources located adjacent to or near the antenna site. Over the past few years, we developed and patented Cell Reach™, a line of smooth-wall copper or aluminum shielded semi-flexible coaxial cables and related connectors and accessories to address this market. Cell Reach has been installed in thousands of wireless base stations with leading service providers.

We also manufacture other broadband coaxial cables, fiber optic cables and twisted pair cables that are used for various wireless applications, including Third Generation Wireless (3G), Personal Communications Systems (PCS), Global System for Mobile Communications (GSM), Universal Mobile Telecommunications Systems (UMTS), Cellular, Multichannel Multipoint Distribution Service (MMDS), Local Multipoint Distribution System (LMDS), land mobile radio, paging, automotive and in-building wireless applications.

Our ExchangeMAX structured cabling systems are primarily deployed in U.S. central offices of telephone service providers. The ExchangeMAX solution combines our family of central office connectivity products with an overall system architecture to support the copper cable distribution networks of a central office. Our products include Unshielded Twisted Pair (UTP), shielded twisted pair and coaxial cable, copper main distributing frames, digital signal cross connect frames, connectors, patch cords and

cable management software. We manufacture and market the ExchangeMAX product line primarily to OEMs, telecommunication service providers and third-party vendors in the U.S. We have decided to exit the telephone central office cable business as we do not believe it is likely that it will generate acceptable future returns. We intend to retain the ExchangeMAX apparatus business.

Manufacturing

Most of our manufacturing facilities have received ISO 9000 certification, the most widely recognized standard for quality management. In addition, several of our facilities have the TL 9000 certification, which is a telecommunications specific standard for quality management. We employ a global manufacturing strategy and operate 12 manufacturing facilities located domestically in Nebraska, North Carolina, Alabama and Nevada and internationally in Seneffe, Belgium; Jaguariuna, Brazil; Bray, Ireland; Brisbane, Australia; and Suzhou, China, which became operational in mid-2005.

Communications Cables

We employ numerous advanced cable manufacturing processes. Many of these processes, some of which are proprietary and/or include trade secret information, are performed on equipment that has been modified for our purposes or specifically built to our specifications, often internally in our own machine shop facilities. These manufacturing processes include bimetallic wire fabrication, fine wire drawing, thermoplastic extrusion for insulating wires and cables, high-speed welding and swaging of metallic shields or outer conductors, braiding, cabling and stranding, and automated testing. Our manufacturing operations have a significant level of vertical integration. We outsource compounding and fabrication of selected materials when cost-effective.

Apparatus Devices

Apparatus devices support a complete systems solution. These products include jacks, outlets, panels, cords, connectors, protectors and network management tools. The manufacture of a typical part includes the following steps: molding of the parts, stamping metal parts, forming of sheet metal parts, insertion of printed wiring boards, assembly, wire wrapping, labeling and packaging. These products are composed of various plastics, stamped metal components and purchased assembled components.

Solutions Approach

We utilize a unique, top-down systems approach to developing structured cabling systems. This approach is supported by modal decomposition and simulation techniques developed by our laboratories. Modal Decomposition Modeling is a sophisticated measurement and modeling tool to analyze the hundreds of interactions present in multi-conductor transmission systems. We believe that this proprietary tool increases measurement accuracy and can effectively cascade individual components mathematically into a link or a channel. After collection of the modal data for a large number of individual components, through a mathematical process we can simulate a link or channel as if all components were physically connected. We believe that this modeling tool allows us a more comprehensive understanding of the properties of a cabling channel than our competitors. In addition, we are better able to identify weak links and refine components for system tuning and optimization. With this optimization, a UTP cabling system can sustain speeds in the multi-gigabit range without radical new design. We believe that our unique tools help us create better-structured cabling solutions, deliver best-in-class total system performance and maintain a strong competitive position globally.

Integrated Cabinets

An integrated cabinet starts with base metal sheets that are stamped or cut and then formed to specification. These parts are then treated and sealed in a dry paint line process. The metal parts are then assembled and engineered around specific power and thermodynamic components and designs, some of which are developed internally and others of which are purchased from third party providers. A base line cabinet can then be assembled using cable or apparatus products and integrated to high-end electronic devices as provided by the end user drawings.

Cost Reduction Initiatives

In order to improve the long-term competitive position of our business, we initiated major restructuring initiatives in 2005 and 2004.

The purpose of the 2005 initiative, which began in the third quarter, is to reduce costs by improving manufacturing efficiency, primarily for our Enterprise and Broadband segment cable operations. This includes shifting production among our global manufacturing facilities and the closing of the Scottsboro, Alabama facility in late 2006. Implementation of this initiative is expected to be substantially completed by the end of 2006.

During the fourth quarter of 2004, Connectivity Solutions Manufacturing, Inc. (CSMI), our wholly-owned manufacturing subsidiary, adopted organizational and cost-reduction initiatives at its Omaha, Nebraska facility. The primary components of this restructuring are: a) a reorganized management structure that creates more focused stand-alone management organizations for cable, apparatus and cabinets, b) re-engineered, simplified business practices and manufacturing processes and c) a reduced number of management, production and support personnel. Implementation of this initiative was substantially completed by the middle of 2005.

See Note 6 in the Notes to the Consolidated Financial Statements included elsewhere in this Form 10-K for additional detail about the restructuring costs recognized and expected future costs related to these initiatives.

Restructured Relationship with Furukawa

From November 2001 through June 2004 we owned a minority equity interest in OFS BrightWave, LLC (OFS BrightWave), one of the world's largest manufacturers of optical fiber and fiber optic cable. OFS BrightWave was formed by us and The Furukawa Electric Co., Ltd. (Furukawa) to operate certain fiber optic cable and transmission fiber assets of the Optical Fiber Solutions Group acquired from Lucent Technologies Inc. in 2001. The remaining equity interest in OFS BrightWave was owned by an indirect wholly-owned subsidiary of Furukawa.

Primarily as a result of the continuing weakness in the global fiber optic cable market and Furukawa's efforts to restructure the OFS BrightWave operations, we agreed with Furukawa to amend our contractual arrangements in the second quarter of 2004 for the mutual benefit of both companies. In June 2004, we exercised our contractual right to sell and sold our 9.4% equity ownership interest in OFS BrightWave to Furukawa in exchange for the 7,656,900 shares of our common stock owned by Furukawa. We hold these shares as treasury stock. As a result of this transaction, we no longer own any equity interest in OFS BrightWave.

This transaction does not affect our right to receive full payment from OFS BrightWave under an existing \$30 million loan, which is scheduled to mature in late 2006. In conjunction with the sale of our ownership interest in OFS BrightWave, we fully impaired the remaining balance of this loan due to market conditions and because we no longer had an equity ownership in OFS BrightWave. The impairment loss

was included in the net gain on sale in our 2004 consolidated statement of operations. OFS BrightWave has continued to make interest payments in accordance with the terms of the original loan agreement.

We recorded a net pretax gain during the second quarter of 2004 of \$121.3 million (\$76.4 million net of tax or \$1.13 per diluted share), as a result of this transaction. For more information about this transaction, see Note 5 in the Notes to the Consolidated Financial Statements included elsewhere in this Form 10-K.

In addition, we agreed with an affiliate of Furukawa to continue our existing optical fiber supply relationship by entering into a new four-year supply agreement that expires June 2008. We will continue to have access to a broad array of technologically advanced optical fibers as well as a cross-license agreement for key intellectual property.

Research and Development

Our research and development (R&D) expenditures for the creation and application of new and improved products and processes were \$31.3 million, \$29.3 million and \$6.2 million for the years ended December 31, 2005, 2004 and 2003, respectively. The increase in R&D in 2005 and 2004 over 2003 is primarily the result of our acquisition of the Connectivity Solutions business. In connection with this acquisition we gained over 100 research and development professionals who focus on product development and enhancements and manufacturing processes related to Connectivity Solutions products. During 2005 and 2004, our major R&D activities related to developing new enterprise structured cabling solutions as well as more cost effective designs for cables, apparatus and cabinets.

Many of our professionals maintain a presence in standards-setting organizations so that our products can be formulated to achieve broad market acceptance. These organizations include the Telecommunications Industry Association, the Electronic Industry Association, the Institute of Electrical and Electronic Engineers, the Society of Cable Telecommunications Engineers and the International Standards Organization.

Sales and Distribution

We market our products directly to telecommunication service providers and through an extensive global network of distributors, system integrators and value-added resellers. We support our sales organization with regional service centers in locations around the world. A key aspect of our North American customer support and distribution system is the use of our private truck fleet, which primarily serves our Broadband segment customers. We believe that our ability to offer rapid delivery services, materials management and logistics services to customers in the continental U.S. utilizing our private truck fleet is an important competitive advantage.

Our Broadband segment products are primarily sold directly to cable television system operators. According to the National Cable & Telecommunications Association, the five largest cable television system operators account for nearly 70% of the cable television subscribers in the United States. The major cable television system operators include such companies as Comcast Corporation (Comcast), Time Warner Inc., Charter Communications, Inc., Cox Communications, Inc. and Adelphia Communications Corporation (Adelphia). Although we sell to a wide variety of customers dispersed across many different geographic areas, sales to the five largest domestic broadband service providers represented 17%, 18% and 39% of our net sales during 2005, 2004 and 2003, respectively. Sales to Comcast accounted for 18% of our net sales for the year ended December 31, 2003. No other Broadband customer accounted for 10% or more of our net sales during 2005, 2004 or 2003.

Our Enterprise segment products are sold to customers primarily through independent distributors, system integrators and value-added resellers. During 2005 and 2004, sales of enterprise products to the top

five distributors, system integrators and value-added resellers represented 45% and 50%, respectively, of our consolidated net sales. During 2005 and 2004, Anixter International and its affiliates (Anixter) accounted for 32% and 35%, respectively, of our net sales. No other enterprise customer accounted for more than 10% of our net sales during 2005 or 2004. Selling products through distributors has associated risks, including, without limitation, that sales can be negatively affected on a short-term basis as a result of changes in inventory levels maintained by distributors; these inventory changes may be unrelated to the purchasing trends by the ultimate customer.

We believe the enterprise structured cabling market has three segments: premium, mid-tier and basic. Products in the premium segment consist of end-to-end solutions created from cable, connectors and components that are specifically designed for compatibility to provide cutting-edge performance and best-in-class system transmission. Products in the mid-tier segment generally consist of value-oriented solutions based on established technology or cable that is matched with connectors from a variety of manufacturers. Products in the basic segment consist of lower performance cables typically used for telephone wiring or lower speed networks.

We deploy a two-tier strategy to address different market needs with our enterprise brands. Our SYSTIMAX branded products focus on the premium segment and are purchased primarily by large, multinational companies. Our Uniprise branded products focus on the middle-tier market and are purchased primarily by large and medium sized enterprises in the U.S.

We sell our Carrier segment products both directly and through distribution, primarily to large, domestic telecommunication service providers and OEMs. Our customer service and engineering groups maintain particularly close working relationships with these carrier customers due to the significant amount of design and customization associated with some of these products.

Our international sales consist primarily of our Enterprise and Broadband segment products. Our primary channels to international markets are through distributors and direct sales to end users and OEMs. We support our international sales efforts with sales representatives based in Europe, Latin America, Asia/Pacific Rim and other regions throughout the world. Our net sales from international operations were \$450.4 million, \$373.7 million and \$110.8 million during 2005, 2004 and 2003, respectively.

The effect of changes in the relative value of currencies on our results of operations may be favorable or unfavorable. We sometimes engage in foreign currency hedging transactions to mitigate these effects. For more information about our foreign currency exposure management, see Note 11 in the Notes to the Consolidated Financial Statements included elsewhere in this Form 10-K.

Patents and Trademarks

We pursue an active policy of seeking intellectual property protection, namely patents and registered trademarks, for new products and designs. As of December 31, 2005, on a worldwide basis, we held over 1,300 patents and pending patent applications, including those we acquired as part of the Connectivity Solutions acquisition. As of December 31, 2005, we also had over 700 registered trademarks and pending trademark applications worldwide. We consider our patents and trademarks to be valuable assets, but no single patent or trademark is material to our operations as a whole. We intend to rely on our intellectual property rights, including our proprietary knowledge, trade secrets and continuing technological innovation, to develop and maintain our competitive position. We have and will continue to protect certain key intellectual property rights.

We have entered into cross-licensing arrangements with Furukawa, providing us with access to key technology for communications cables, especially fiber optic cables.

Backlog

At December 31, 2005, 2004 and 2003, we had an order backlog of \$81 million, \$91 million and \$24 million, respectively. Orders typically fluctuate from quarter to quarter based on customer demand and general business conditions. Backlog includes only orders for products scheduled to be shipped within six months. In some cases, unfilled orders may be canceled prior to shipment of goods; but cancellations historically have not been material. However, our current order backlog may not be indicative of future demand.

Competition

The market for cable products and structured cabling systems is highly competitive and subject to rapid technological change. We encounter competition in substantially all areas of our business and from both international and domestic companies. Our competitors include large, diversified companies, some of which have substantially greater assets and financial resources than we do, as well as medium to small companies. We also face competition from certain smaller companies that have concentrated their efforts in one or more areas of the Broadband, Enterprise or Carrier markets. Some of our representative competitors by segment include: Enterprise ADC Telecommunications, Inc., Belden CDT, Inc., Corning Incorporated, General Cable Corp., Ortronics, Inc., Nexans SA, Panduit Corp. and Tyco Electronics Corporation; Broadband Amphenol Corporation, Corning Incorporated and Pirelli & C. SpA; Carrier Alcatel, ADC Telecommunications, Inc., Andrew Corporation, Eupen Cable, Inc. and Emerson Electric Co.

We compete primarily on the basis of product specifications, quality, price, engineering, customer service and delivery time. We believe that we have a strong competitive position in the Broadband segment markets due to our position as a low-cost, high-volume cable producer and reputation as a high-quality provider of state-of-the-art cables with a strong orientation toward customer service. We believe that our structured cabling systems have a strong competitive position in the Enterprise segment markets because of long-standing relationships with distributors, system integrators and value-added resellers, strong brand recognition and premium product features and reliability. We believe that the ICS and wireless products within our Carrier segment are able to compete effectively in these markets based on strong technological capabilities and customer relationships.

Raw Materials

Our manufacturing operations are process oriented and we use significant quantities of various raw materials, including plastics and other polymers, fluoropolymers, fabricated aluminum, bimetals, copper, optical fiber and steel, among others. Fluorinated ethylene propylene is the primary raw material used throughout the industry for producing flame-retarding cables for LAN applications in North America. We use fabricated aluminum, copper and steel in the manufacture of coaxial and twisted pair cables. Most of these metal materials are purchased under supply arrangements with some portion of the unit pricing indexed to commodity market prices for these metals. We have adopted a hedging policy pursuant to which we may, from time to time, purchase physical inventory or attempt to match futures contracts or option contracts for a specific metal with some portion of the anticipated metal purchases for the same periods. Optical fiber is a primary raw material used for making fiber optic cables.

Our profitability may be materially affected by changes in the market price of our raw materials, most of which are linked to the commodity markets. Prices for copper, fluoropolymers and certain polymers derived from oil and natural gas have increased substantially over the past two years. As a result, we have increased our prices for certain Enterprise and Broadband segment products and may have to increase prices again in the future. Our inability to recover costs through increased prices could have a material adverse impact on the results of our operations.

Environment

We are subject to various federal, state, local and foreign environmental laws and regulations governing, among other things, discharges to air and water, management of hazardous substances, the handling and disposal of solid and hazardous waste, and the investigation and remediation of hazardous substance contamination. Because of the nature of our business, we have incurred, and will continue to incur, costs relating to compliance with these environmental laws and regulations. Compliance with current laws and regulations has not had and is not expected to have a material adverse effect on our financial condition. However, new laws and regulations, including those regulating the types of substances allowable in certain of our products, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new remediation or discharge requirements could require us to incur costs or become the basis for new or increased liabilities that could have a material adverse effect on our business. Our Enterprise segment cable products and many of our Broadband segment cable products are compliant with the European Union Directive on Restriction of Hazardous Substances (RoHS) in electrical and electronic equipment and we intend that the balance of our products subject to the directive will be compliant prior to the July 1, 2006 effective date.

Pursuant to the Comprehensive Environmental Response, Compensation and Liability Act and similar state statutes, current or former owners or operators of a contaminated property, as well as companies that generated, disposed of, or arranged for the disposal of hazardous substances at a contaminated property, can be held jointly and severally liable for the costs of investigation and remediation of the contaminated property, regardless of fault. Certain of our owned facilities, including the Omaha facility of CSMI acquired in the Connectivity Solutions acquisition, are the subject of ongoing investigation and/or remediation of hazardous substance contamination in the soil and/or groundwater. Costs relating to these investigations or remediation activities are being indemnified by prior owners and operators of these facilities. Based on currently available information and the availability of indemnification, we do not believe that the costs associated with these contaminated sites will have a material adverse effect on our financial condition or results of operations. However, our present and former facilities have or had been in operation for many years and, over such time, these facilities have used substances or generated and disposed of wastes that are or may be considered hazardous. Therefore, it is possible that environmental liabilities may arise in the future which we cannot now predict.

Employees

As of December 31, 2005, we employed approximately 4,400 people. The majority of our employees are located in the U.S., but we also have employees in foreign countries, including Australia, Belgium, Brazil, Ireland, Singapore, China and The Netherlands.

CSMI has collective bargaining agreements with the International Brotherhood of Electrical Workers (IBEW), Locals 1614 and 1974. In connection with our acquisition of Connectivity Solutions, CSMI assumed these agreements, with modifications, effective January 31, 2004. These collective bargaining agreements that expire on May 31, 2006 govern the pay, benefits and working conditions for approximately 715 production, maintenance and clerical employees represented by the two IBEW Locals. In February 2006, the IBEW Local representing the production and maintenance employees ratified a new agreement that will be in effect from June 1, 2006 through December 31, 2008.

We believe that our relations with our employees and unions are satisfactory.

Available Information

Our website (www.commscope.com) contains frequently updated information about us and our operations. Our filings with the Securities and Exchange Commission (SEC) on Form 10-K, Form 10-Q and Form 8-K and all amendments to those reports can be viewed and downloaded free of charge as soon

as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC by accessing www.commscope.com and clicking on *Investor Relations/News* and then clicking on *SEC Filings*.

New York Stock Exchange Annual CEO Certification

Our common stock is listed on the New York Stock Exchange. In accordance with New York Stock Exchange rules, on June 1, 2005 we filed the annual certification by our CEO that, as of the date of the certification, he was unaware of any violation by CommScope of the New York Stock Exchange's corporate governance listing standards.

ITEM 1A. RISK FACTORS

The Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995 and other related laws provide a safe harbor for forward-looking statements. Our Form 10-K for the year ended December 31, 2005, our Annual Report to Stockholders, any Form 10-Q or Form 8-K of ours, or any other oral or written statements made by us or on our behalf, may include forward-looking statements which reflect our current views with respect to future events and financial performance. These forward-looking statements are identified by their use of such terms and phrases as intends, intend, intended, goal, estimate, estimates, expects, expect, expected, project, projects, projected, anticipates, anticipated, should, think, thinks, designed to, foreseeable future, believe, believes, scheduled and similar expressions. Indicative terms and phrases is not intended to be all-inclusive. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We do not intend, and are not undertaking any duty or obligation, to update any forward-looking statements to reflect developments or information obtained after the date of this Form 10-K.

Our actual results may differ significantly from the results discussed in forward-looking statements. Factors that might cause such a difference include, but are not limited to (a) the general political, military, economic and competitive conditions in the United States and other markets where we operate; (b) changes in capital availability or costs, such as changes in interest rates, market perceptions of the industry in which we operate, security ratings or general stock market fluctuations; (c) workforce factors; (d) authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the Public Company Accounting Oversight Board and the Securities and Exchange Commission (SEC); (e) the impact of corporate governance, accounting and securities law reforms by the United States Congress, the SEC and the New York Stock Exchange; (f) risks related to production and inventory, including warranty costs, obsolescence charges, excess capacity and material and labor costs; and (g) the factors set forth below.

We are dependent on a limited number of key customers or distributors for a substantial portion of the net sales in each of our business segments.

Within each of our business segments, a limited number of key customers or distributors account for a substantial portion of our net sales:

Enterprise