

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 4, 2021

Commission File No. 001-12561

BELDEN INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-3601505

(I.R.S. Employer Identification No.)

**1 North Brentwood Boulevard
15th Floor**

St. Louis, Missouri 63105
(Address of principal executive offices)

(314) 854-8000
Registrant's telephone number, including area code

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

<u>Title of each class</u>	<u>Trading Symbols</u>	<u>Name of each exchange on which registered</u>
Common stock, \$0.01 par value	BDC	New York Stock Exchange

As of August 4, 2021, the Registrant had 44,853,451 outstanding shares of common stock.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

BELDEN INC. CONDENSED CONSOLIDATED BALANCE SHEETS

	July 4, 2021	December 31, 2020
	(Unaudited)	
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 423,291	\$ 501,994
Receivables, net	386,133	296,817
Inventories, net	304,821	247,298
Other current assets	50,725	52,289
Total current assets	1,164,970	1,098,398
Property, plant and equipment, less accumulated depreciation	360,338	368,620
Operating lease right-of-use assets	59,509	54,787
Goodwill	1,286,617	1,251,938
Intangible assets, less accumulated amortization	314,283	287,071
Deferred income taxes	30,144	29,536
Other long-lived assets	54,066	49,384
	<u>\$ 3,269,927</u>	<u>\$ 3,139,734</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 299,428	\$ 244,120
Accrued liabilities	283,109	276,641
Total current liabilities	582,537	520,761
Long-term debt	1,527,047	1,573,726
Postretirement benefits	152,080	160,400
Deferred income taxes	43,205	38,400
Long-term operating lease liabilities	49,805	46,398
Other long-term liabilities	41,155	42,998
Stockholders' equity:		
Common stock	503	503
Additional paid-in capital	827,139	823,605
Retained earnings	518,774	450,876
Accumulated other comprehensive loss	(159,391)	(191,851)
Treasury stock	(319,274)	(332,552)
Total Belden stockholders' equity	867,751	750,581
Noncontrolling interests	6,347	6,470
Total stockholders' equity	874,098	757,051
	<u>\$ 3,269,927</u>	<u>\$ 3,139,734</u>

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

BELDEN INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
(In thousands, except per share data)				
Revenues	\$ 601,974	\$ 424,811	\$ 1,138,355	\$ 888,337
Cost of sales	(390,439)	(274,871)	(735,476)	(567,896)
Gross profit	211,535	149,940	402,879	320,441
Selling, general and administrative expenses	(105,554)	(91,703)	(204,003)	(190,092)
Research and development expenses	(30,922)	(25,090)	(62,422)	(51,309)
Amortization of intangibles	(9,102)	(16,017)	(19,049)	(32,202)
Operating income	65,957	17,130	117,405	46,838
Interest expense, net	(14,878)	(14,257)	(30,389)	(27,581)
Non-operating pension benefit	1,445	700	2,129	1,399
Income from continuing operations before taxes	52,524	3,573	89,145	20,656
Income tax expense	(8,552)	(400)	(16,432)	(2,592)
Income from continuing operations	43,972	3,173	72,713	18,064
Loss from discontinued operations, net of tax	—	(71,054)	—	(97,164)
Net income (loss)	43,972	(67,881)	72,713	(79,100)
Less: Net income (loss) attributable to noncontrolling interest	208	24	283	(6)
Net income (loss) attributable to Belden stockholders	\$ 43,764	\$ (67,905)	\$ 72,430	\$ (79,094)
Weighted average number of common shares and equivalents:				
Basic	44,759	44,557	44,717	44,969
Diluted	45,262	44,665	45,162	45,097
Basic income (loss) per share attributable to Belden stockholders:				
Continuing operations	\$ 0.98	\$ 0.07	\$ 1.62	\$ 0.40
Discontinued operations	—	(1.59)	—	(2.16)
Net income (loss)	\$ 0.98	\$ (1.52)	\$ 1.62	\$ (1.76)
Diluted income (loss) per share attributable to Belden stockholders:				
Continuing operations	\$ 0.97	\$ 0.07	\$ 1.60	\$ 0.40
Discontinued operations	—	(1.59)	—	(2.16)
Net income (loss)	\$ 0.97	\$ (1.52)	\$ 1.60	\$ (1.76)
Comprehensive income (loss) attributable to Belden	\$ 22,499	\$ (112,351)	\$ 104,890	\$ (101,217)
Common stock dividends declared per share	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10

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

BELDEN INC.
CONDENSED CONSOLIDATED CASH FLOW STATEMENTS
(Unaudited)

	Six Months Ended	
	July 4, 2021	June 28, 2020
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	72,713	\$ (79,100)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	43,272	53,533
Share-based compensation	13,513	8,798
Asset impairment	6,995	113,007
Changes in operating assets and liabilities, net of the effects of currency exchange rate changes, acquired businesses and disposals:		
Receivables	(90,810)	52,602
Inventories	(50,111)	(9,769)
Accounts payable	50,158	(86,382)
Accrued liabilities	227	(13,697)
Income taxes	1,474	(46,274)
Other assets	(6,924)	13,971
Other liabilities	(13,853)	(18,819)
Net cash provided by (used for) operating activities	26,654	(12,130)
Cash flows from investing activities:		
Cash from (used for) business acquisitions, net of cash acquired	(73,749)	590
Capital expenditures	(30,866)	(41,734)
Purchase of intangible assets	(3,650)	—
Proceeds from disposal of tangible assets	3,249	3,090
Proceeds from disposal of business, net of cash sold	10,798	—
Net cash used for investing activities	(94,218)	(38,054)
Cash flows from financing activities:		
Cash dividends paid	(4,493)	(4,572)
Withholding tax payments for share-based payment awards	(2,009)	(1,058)
Payments under borrowing arrangements	(1,841)	(100,000)
Debt issuance costs paid	(1,728)	—
Other	(75)	(111)
Payments under share repurchase program	—	(35,000)
Payment of earnout consideration	—	(29,300)
Borrowings on revolver	—	190,000
Net cash provided by (used for) financing activities	(10,146)	19,959
Effect of foreign currency exchange rate changes on cash and cash equivalents	(993)	(2,620)
Decrease in cash and cash equivalents	(78,703)	(32,845)
Cash and cash equivalents, beginning of period	501,994	425,885
Cash and cash equivalents, end of period	\$ 423,291	\$ 393,040

The Condensed Consolidated Cash Flow Statement for the six months ended June 28, 2020 includes the results of discontinued operations, which were sold on July 2, 2020.

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

BELDEN INC.
CONDENSED CONSOLIDATED STOCKHOLDERS' EQUITY STATEMENTS
(Unaudited)

	Belden Inc. Stockholders									
	Common Stock		Additional	Retained	Treasury Stock		Accumulated	Non-		
	Shares	Amount	Paid-In	Earnings	Shares	Amount	Other	controlling		Total
			Capital				Comprehensive	Interests		
							Income (Loss)			
	(In thousands)									
Balance at December 31, 2020	50,335	\$ 503	\$ 823,605	\$ 450,876	(5,692)	\$ (332,552)	\$ (191,851)	\$ 6,470	\$ 757,051	
Net income	—	—	—	28,666	—	—	—	75	28,741	
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	53,725	(197)	53,528	
Acquisition of business with noncontrolling interests	—	—	—	—	—	—	—	20	20	
Retirement Savings Plan stock contributions	—	—	(493)	—	45	2,496	—	—	2,003	
Exercise of stock options, net of tax withholding forfeitures	—	—	(723)	—	9	541	—	—	(182)	
Conversion of restricted stock units into common stock, net of tax withholding forfeitures	—	—	(2,403)	—	27	1,680	—	—	(723)	
Share-based compensation	—	—	7,285	—	—	—	—	—	7,285	
Common stock dividends (\$0.05per share)	—	—	—	(2,263)	—	—	—	—	(2,263)	
Balance at April 4, 2021	50,335	\$ 503	\$ 827,271	\$ 477,279	(5,611)	\$ (327,835)	\$ (138,126)	\$ 6,368	\$ 845,460	
Net income	—	—	—	43,764	—	—	—	208	43,972	
Other comprehensive loss, net of tax	—	—	—	—	—	—	(21,265)	(229)	(21,494)	
Retirement Savings Plan stock contributions	—	—	(418)	—	66	3,723	—	—	3,305	
Exercise of stock options, net of tax withholding forfeitures	—	—	(147)	—	2	100	—	—	(47)	
Conversion of restricted stock units into common stock, net of tax withholding forfeitures	—	—	(5,795)	—	83	4,738	—	—	(1,057)	
Share-based compensation	—	—	6,228	—	—	—	—	—	6,228	
Common stock dividends (\$0.05 per share)	—	—	—	(2,269)	—	—	—	—	(2,269)	
Balance at July 4, 2021	50,335	\$ 503	\$ 827,139	\$ 518,774	(5,460)	\$ (319,274)	\$ (159,391)	\$ 6,347	\$ 874,098	

	Belden Inc. Stockholders								
	Common Stock		Additional	Retained	Treasury Stock		Accumulated Other	Non-	
	Shares	Amount	Paid-In Capital	Earnings	Shares	Amount	Comprehensive Income (Loss)	controlling Interests	Total
	(In thousands)								
Balance at December 31, 2019	50,335	\$ 503	\$ 811,955	\$ 518,004	(4,877)	\$ (307,197)	\$ (63,418)	\$ 5,972	\$ 965,819
Cumulative effect of change in accounting principle	—	—	—	(2,916)	—	—	—	—	(2,916)
Net loss	—	—	—	(11,189)	—	—	—	(30)	(11,219)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	22,323	(150)	22,173
Exercise of stock options, net of tax withholding forfeitures	—	—	(542)	—	7	370	—	—	(172)
Conversion of restricted stock units into common stock, net of tax withholding forfeitures	—	—	(2,631)	—	29	1,800	—	—	(831)
Share repurchase program	—	—	—	—	(592)	(21,239)	—	—	(21,239)
Share-based compensation	—	—	3,708	—	—	—	—	—	3,708
Common stock dividends (\$0.05 per share)	—	—	—	(2,288)	—	—	—	—	(2,288)
Balance at March 29, 2020	50,335	\$ 503	\$ 812,490	\$ 501,611	(5,433)	\$ (326,266)	\$ (41,095)	\$ 5,792	\$ 953,035
Net income (loss)	—	—	—	(67,905)	—	—	—	24	(67,881)
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(44,446)	147	(44,299)
Conversion of restricted stock units into common stock, net of tax withholding forfeitures	—	—	(1,598)	—	27	1,543	—	—	(55)
Share repurchase program	—	—	—	—	(384)	(13,761)	—	—	(13,761)
Share-based compensation	—	—	5,090	—	—	—	—	—	5,090
Common stock dividends (\$0.05 per share)	—	—	—	(2,247)	—	—	—	—	(2,247)
Balance at June 28, 2020	50,335	\$ 503	\$ 815,982	\$ 431,459	(5,790)	\$ (338,484)	\$ (85,541)	\$ 5,963	\$ 829,882

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

BELDEN INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements include Belden Inc. and all of its subsidiaries (the Company, us, we, or our). We eliminate all significant affiliate accounts and transactions in consolidation.

The accompanying Condensed Consolidated Financial Statements presented as of any date other than December 31, 2020:

- Are prepared from the books and records without audit, and
- Are prepared in accordance with the instructions for Form 10-Q and do not include all of the information required by accounting principles generally accepted in the United States for complete statements, but
- Include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial statements.

These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Supplementary Data contained in our 2020 Annual Report on Form 10-K.

Business Description

We are a global supplier of specialty networking solutions built around two global businesses - Enterprise Solutions and Industrial Solutions. Our comprehensive portfolio of solutions enables customers to transmit and secure data, sound, and video for mission critical applications across complex enterprise and industrial environments.

Reporting Periods

Our fiscal year and fiscal fourth quarter both end on December 31. Our fiscal first quarter ends on the Sunday falling closest to 91 days after December 31, which was April 4, 2021, the 94th day of our fiscal year 2021. Our fiscal second and third quarters each have 91 days. The six months ended July 4, 2021 and June 28, 2020 included 185 days and 180 days, respectively.

Fair Value Measurement

Accounting guidance for fair value measurements specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources or reflect our own assumptions of market participant valuation. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets, or financial instruments for which significant inputs are observable, either directly or indirectly; and
- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

As of and during the three and six months ended July 4, 2021 and June 28, 2020, we utilized Level 1 inputs to determine the fair value of cash equivalents, and we utilized Level 2 and Level 3 inputs to determine the fair value of net assets acquired in business combinations (see Note 3) and for impairment testing (see Notes 4 and 11). We did not have any transfers between Level 1 and Level 2 fair value measurements during the six months ended July 4, 2021 and June 28, 2020.

Cash and Cash Equivalents

We classify cash on hand and deposits in banks, including commercial paper, money market accounts, and other investments with an original maturity of three months or less, that we hold from time to time, as cash and cash equivalents. We periodically have cash equivalents consisting of short-term money market funds and other investments. As of July 4, 2021, we did not have any such cash equivalents on hand. The primary objective of our investment activities is to preserve our capital for the purpose of funding operations. We do not enter into investments for trading or speculative purposes.

During the six months ended June 28, 2020, we paid the sellers of Snell Advanced Media (SAM) the full earnout consideration of \$31.4 million in cash in accordance with the purchase agreement. SAM was acquired on February 8, 2018 and was included in the Grass Valley disposal group.

Contingent Liabilities

We have established liabilities for environmental and legal contingencies that are probable of occurrence and reasonably estimable, the amounts of which are currently not material. We accrue environmental remediation costs based on estimates of known environmental remediation exposures developed in consultation with our environmental consultants and legal counsel. We are, from time to time, subject to routine litigation incidental to our business. These lawsuits primarily involve claims for damages arising out of the use of our products, allegations of patent or trademark infringement, and litigation and administrative proceedings involving employment matters and commercial disputes. Based on facts currently available, we believe the disposition of the claims that are pending or asserted will not have a material adverse effect on our financial position, results of operations, or cash flow.

As of July 4, 2021, we were party to bank guaranties, standby letters of credit, and surety bonds totaling \$6.9 million, \$6.9 million, and \$3.3 million, respectively.

Revenue Recognition

We recognize revenue consistent with the principles as outlined in the following five step model: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) each performance obligation is satisfied. See Note 2.

Subsequent Events

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

Noncontrolling Interest

We have a 51% ownership percentage in a joint venture with Shanghai Hi-Tech Control System Co, Ltd (Hite). The purpose of the joint venture is to develop and provide certain Industrial Solutions products and integrated solutions to customers in China. Belden and Hite are committed to fund \$1.53 million and \$1.47 million, respectively, to the joint venture in the future. The joint venture is determined to not have sufficient equity at risk; therefore, it is considered a variable interest entity. We have determined that Belden is the primary beneficiary of the joint venture, due to both our ownership percentage and our control over the activities of the joint venture that most significantly impact its economic performance based on the terms of the joint venture agreement with Hite. Because Belden is the primary beneficiary of the joint venture, we have consolidated the joint venture in our financial statements. The results of the joint venture attributable to Hite's ownership are presented as net income (loss) attributable to noncontrolling interest in the Condensed Consolidated Statements of Operations. The joint venture is not material to our Condensed Consolidated financial statements as of or for the periods ended July 4, 2021 and June 28, 2020.

Furthermore, certain subsidiaries of our Opterna and OTN Systems N.V. (OTN) businesses, which we acquired in April of 2019 and January 2021, respectively, include noncontrolling interests. Because we have a controlling financial interest in these subsidiaries, they are consolidated into our financial statements. The results of these subsidiaries were consolidated into our financial statements as of the respective acquisition dates. The results that are attributable to the noncontrolling interest holders are presented as net income (loss) attributable to noncontrolling interests in the Condensed Consolidated Statements of Operations. An immaterial amount of Opterna's annual revenues are generated from transactions with the noncontrolling interests. The subsidiaries of Opterna and OTN that include noncontrolling interests are not material to our Condensed Consolidated financial statements as of or for the periods ended July 4, 2021 and June 28, 2020.

Note 2: Revenues

Revenues are recognized when control of the promised goods or services is transferred to our customers and in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Taxes collected from customers and remitted to governmental authorities are not included in our revenues.

The following tables present our revenues disaggregated by major product category.

	Broadband & 5G	Cyber-security	Industrial Automation	Smart Buildings	Total Revenues
Three Months Ended July 4, 2021	(In thousands)				
Enterprise Solutions	\$ 124,760	\$ —	\$ —	\$ 142,768	\$ 267,528
Industrial Solutions	—	26,120	308,326	—	334,446
Total	\$ 124,760	\$ 26,120	\$ 308,326	\$ 142,768	\$ 601,974
Three Months Ended June 28, 2020					
Enterprise Solutions	\$ 110,612	\$ —	\$ —	\$ 92,762	\$ 203,374
Industrial Solutions	—	25,726	195,711	—	221,437
Total	\$ 110,612	\$ 25,726	\$ 195,711	\$ 92,762	\$ 424,811
Six Months Ended July 4, 2021					
Enterprise Solutions	\$ 229,851	\$ —	\$ —	\$ 264,032	\$ 493,883
Industrial Solutions	—	53,825	590,647	—	644,472
Total	\$ 229,851	\$ 53,825	\$ 590,647	\$ 264,032	\$ 1,138,355
Six Months Ended June 28, 2020					
Enterprise Solutions	\$ 206,715	\$ —	\$ —	\$ 208,872	\$ 415,587
Industrial Solutions	—	51,445	421,305	—	472,750
Total	\$ 206,715	\$ 51,445	\$ 421,305	\$ 208,872	\$ 888,337

The following tables present our revenues disaggregated by geography, based on the location of the customer purchasing the product.

	Americas	EMEA	APAC	Total Revenues
Three Months Ended July 4, 2021	(In thousands)			
Enterprise Solutions	\$ 192,138	\$ 40,468	\$ 34,922	\$ 267,528
Industrial Solutions	196,567	86,762	51,117	334,446
Total	\$ 388,705	\$ 127,230	\$ 86,039	\$ 601,974
Three Months Ended June 28, 2020				
Enterprise Solutions	\$ 154,844	\$ 26,150	\$ 22,380	\$ 203,374
Industrial Solutions	124,640	57,260	39,537	221,437
Total	\$ 279,484	\$ 83,410	\$ 61,917	\$ 424,811
Six Months Ended July 4, 2021				
Enterprise Solutions	\$ 354,814	\$ 78,404	\$ 60,665	\$ 493,883
Industrial Solutions	381,715	168,042	94,715	644,472
Total	\$ 736,529	\$ 246,446	\$ 155,380	\$ 1,138,355
Six Months Ended June 28, 2020				
Enterprise Solutions	\$ 310,273	\$ 62,012	\$ 43,302	\$ 415,587
Industrial Solutions	281,040	123,226	68,484	472,750
Total	\$ 591,313	\$ 185,238	\$ 111,786	\$ 888,337

We generate revenues primarily by selling products that provide secure and reliable transmission of data, sound, and video for mission critical applications. We also generate revenues from providing support and professional services. We sell our products to distributors, end-users, installers, and directly to original equipment manufacturers. At times, we enter into arrangements that involve the delivery of multiple performance obligations. For these arrangements, revenue is allocated to each performance obligation based on its relative selling price and recognized when or as each performance obligation is satisfied. Most of our performance obligations related to the sale of products are satisfied at a point in time when control of the product is transferred based on the shipping terms of the arrangement. Generally, we determine relative selling price using the prices charged to customers on a standalone basis.

The amount of consideration we receive and revenue we recognize varies due to rebates, returns, and price adjustments. We estimate the expected rebates, returns, and price adjustments based on an analysis of historical experience, anticipated sales demand, and trends in product pricing. We adjust our estimate of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the consideration becomes fixed. Adjustments to revenue for performance obligations satisfied in prior periods were not significant during the three and six months ended July 4, 2021 and June 28, 2020.

The following table presents estimated and accrued variable consideration:

	July 4, 2021	December 31, 2020
	(in thousands)	
Accrued rebates	\$ 35,831	\$ 32,192
Accrued returns	12,003	13,016
Price adjustments recognized against gross accounts receivable	27,718	25,244

Depending on the terms of an arrangement, we may defer the recognition of some or all of the consideration received because we have to satisfy a future obligation. Consideration allocated to support services under a support and maintenance contract is typically paid in advance and recognized ratably over the term of the service. Consideration allocated to professional services is typically recognized when or as the services are performed depending on the terms of the arrangement. As of July 4, 2021, total deferred revenue was \$82.1 million, and of this amount, \$57.3 million is expected to be recognized within the next twelve months, and the remaining \$24.8 million is long-term and is expected to be recognized over a period greater than twelve months.

The following table presents deferred revenue activity during the three and six months ended July 4, 2021 and June 28, 2020:

	2021	2020
	(In thousands)	
Beginning balance at January 1	\$ 77,648	\$ 70,070
New deferrals	24,505	23,830
Acquisition of OTN	5,997	—
Revenue recognized	(24,387)	(24,415)
Balance at the end of Q1	\$ 83,763	\$ 69,485
New deferrals	20,596	21,322
Adjustments related to acquisitions	(2,740)	—
Revenue recognized	(19,542)	(22,200)
Balance at the end of Q2	\$ 82,077	\$ 68,607

Service-type warranties represent \$11.0 million of the deferred revenue balance at July 4, 2021, and of this amount \$3.9 million is expected to be recognized in the next twelve months, and the remaining \$7.1 million is long-term and will be recognized over a period greater than twelve months.

We expense sales commissions as incurred when the duration of the related revenue arrangement is one year or less. We capitalize sales commissions in other current and long-lived assets on our balance sheet when the original duration of the related revenue arrangement is longer than one year, and we amortize it over the related revenue arrangement period. Total capitalized sales commissions was \$6.2 million and \$4.6 million as of July 4, 2021 and June 28, 2020, respectively. The following table presents sales commissions that are recorded within selling, general and administrative expenses:

	Three Months ended		Six Months ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Sales commissions	\$ 4,715	\$ 3,856	\$ 8,592	\$ 8,030

Note 3: Acquisitions

OTN Systems N.V.

We acquired 100% of the shares of OTN on January 29, 2021 for a preliminary purchase price, net of cash acquired, of \$73.3 million, which was funded with cash on hand. OTN, based in Olen, Belgium, is a leading provider of easy to use and highly-reliable network solutions tailored for specific applications in harsh, mission-critical environments. The acquisition of OTN supports one of our key strategic priorities related to the growing demand for industrial automation by adding proprietary technology and mission-critical hardware and software products for more complete end-to-end solutions. The results of OTN have been included in our Condensed Consolidated Financial Statements from January 29, 2021, and are reported within the Industrial Solutions segment. Belden assumed \$1.8 million of OTN's debt as part of the transaction, which was subsequently paid on the acquisition date. A subsidiary of OTN includes a noncontrolling interest. Because OTN has a controlling financial interest in the subsidiary, it is consolidated into our financial statements. The results that are attributable to the noncontrolling interest holder are presented as net income (loss) attributable to noncontrolling interests in the Condensed Consolidated Statements of Operations.

The following table summarizes the estimated, preliminary fair values of the assets acquired and the liabilities assumed as of January 29, 2021 (in thousands):

Receivables	\$	5,036
Inventories		10,700
Other current assets		1,361
Property, plant and equipment		602
Intangible assets		39,930
Goodwill		39,550
Operating lease right-of-use assets		4,144
Other long-lived assets		706
Total assets acquired	\$	102,029
Accounts payable	\$	5,931
Accrued liabilities		4,486
Deferred revenues		3,260
Long-term debt		1,841
Post retirement benefits		3,581
Deferred income taxes		5,522
Long-term operating lease liabilities		3,271
Other long-term liabilities		771
Total liabilities assumed	\$	28,663
Net assets	\$	73,366
Noncontrolling interests		20
Net assets attributable to Belden	\$	73,346

The above purchase price allocation is preliminary, and is subject to revision as additional information about the fair value of individual assets and liabilities becomes available. The preliminary measurement of receivables, inventories, intangible assets, goodwill, deferred income taxes, other assets and liabilities, and noncontrolling interests are subject to change. A change in the estimated fair value of the net assets acquired or noncontrolling interests will change the amount of the purchase price allocable to goodwill.

During the second quarter of 2021, we recorded measurement-period adjustments that increased goodwill by \$0.2 million. The impact of these adjustments to the Condensed Consolidated Statements of Operations was immaterial.

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The judgments we have used in estimating the preliminary fair values assigned to each class of acquired assets and assumed liabilities could materially affect the results of our operations.

The preliminary fair value of acquired receivables is \$5.0 million, which is equivalent to its gross contractual amount.

For purposes of the above allocation, we based our preliminary estimate of the fair values for the acquired inventory, intangible assets, deferred revenue, and noncontrolling interests on valuation studies performed by a third party valuation firm. We have estimated a preliminary fair value adjustment for inventories based on the estimated selling price of the work-in-process and finished goods acquired at the closing date less the sum of the costs to complete the work-in-process, the costs of disposal, and a reasonable profit allowance for our post acquisition selling efforts. We used various valuation methods including discounted cash flows, lost income, excess earnings, and relief from royalty to estimate the preliminary fair value of the identifiable intangible assets and deferred revenue (Level 3 valuation).

Goodwill and other intangible assets reflected above were determined to meet the criteria for recognition apart from tangible assets acquired and liabilities assumed. The goodwill is primarily attributable to the expansion of industrial automation product offerings in complete end-to-end solutions. Our tax basis in the acquired goodwill is zero.

The intangible assets related to the acquisition consisted of the following:

	Fair Value	Amortization Period
	(In thousands)	(In years)
Intangible assets subject to amortization:		
Developed technologies	\$ 26,400	6.8
Customer relationships	6,200	15.0
Sales backlog	3,600	5.0
Trademarks	3,070	14.8
Non-compete agreements	660	2
Total intangible assets subject to amortization	\$ 39,930	
Intangible assets not subject to amortization:		
Goodwill	\$ 39,550	n/a
Total intangible assets not subject to amortization	\$ 39,550	
Total intangible assets	\$ 79,480	
Weighted average amortization period		8.5

The amortizable intangible assets reflected in the table above were determined by us to have finite lives. The useful life for the developed technology intangible asset was based on the estimated time that the technology provides us with a competitive advantage and thus approximates the period and pattern of consumption of the intangible asset. The useful life for the customer relationship intangible asset was based on our forecasts of estimated sales from recurring customers. The useful life of the backlog intangible asset was based on our estimate of when the ordered items would ship and control of the items transfers. The useful life for the trademarks was based on the period of time we expect to continue to go to market using the trademarks. The useful life of the non-compete agreements was based on the term of the agreements.

Our consolidated revenues and income before taxes for the three months ended July 4, 2021 included \$8.8 million and \$(0.8) million, respectively, from OTN. For the three months ended July 4, 2021, income before taxes included \$0.3 million of severance and other restructuring costs, \$0.7 million of amortization of intangible assets, and \$1.2 million of cost of sales related to the adjustment of acquired inventory to fair value for OTN.

Our consolidated revenues and income before taxes for the six months ended July 4, 2021 included \$12.9 million and \$(4.2) million, respectively, from OTN. For the six months ended July 4, 2021, income before taxes included \$1.7 million of severance and other restructuring costs, \$2.3 million of amortization of intangible assets, and \$2.0 million of cost of sales related to the adjustment of acquired inventory to fair value for OTN.

The following table illustrates the unaudited pro forma effect on operating results as if the OTN acquisition had been completed as of January 1, 2020.

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands, except per share data)			
	(Unaudited)			
Revenues	\$ 603,171	\$ 432,941	\$ 1,140,750	\$ 901,641
Net income from continuing operations attributable to Belden common stockholders	38,133	2,015	61,503	13,213
Diluted income from continuing operations per share attributable to Belden common stockholders	\$ 0.84	\$ 0.05	\$ 1.36	\$ 0.29

The above unaudited pro forma financial information is presented for informational purposes only and does not purport to represent what our results of operations would have been had we completed the acquisition on the date assumed, nor is it necessarily indicative of the results that may be expected in future periods. Pro forma adjustments exclude cost savings from any synergies resulting from the acquisition.

Opterna International Corp.

Our acquisition of Opterna International Corp. (Opterna) in 2019 included potential earn-out consideration. As of the acquisition date, we estimated the fair value of the earn-out to be \$5.8 million. The earn-out period ended in 2021, and the financial targets tied to the earn-out were not achieved. We reduced the earn-out liability to zero and recognized a \$5.8 million benefit in Selling, General and Administrative Expenses in the six months ended July 4, 2021. This benefit was excluded from Segment EBITDA of our Enterprise Solutions segment.

Note 4: Disposals

We classify assets and liabilities as held for sale (disposal group) when management, having the authority to approve the action, commits to a plan to sell the disposal group, the sale is probable within one year, and the disposal group is available for immediate sale in its present condition. We also consider whether an active program to locate a buyer has been initiated, whether the disposal group is marketed actively for sale at a price that is reasonable in relation to its current fair value, and whether actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. When we classify a disposal group as held for sale, we test for impairment. An impairment charge is recognized when the carrying value of the disposal group exceeds the estimated fair value, less costs to sell. We also cease depreciation and amortization for assets classified as held for sale.

During the first quarter of 2021, we committed to a plan to sell our oil and gas cable business in Brazil that met all of the criteria to classify the assets and liabilities of this business, formerly part of the Industrial Solutions segment, as held for sale. At such time, the carrying value of the disposal group exceeded the fair value less costs to sell, which we determined based upon the expected sale price, by \$3.4 million. Therefore, we recognized an impairment charge in Selling, General and Administrative Expenses equal to this amount in the first quarter of 2021. The impairment charge was excluded from Segment EBITDA of our Industrial Solutions segment.

We completed the sale of our oil and gas cable business in Brazil during the second quarter of 2021 for \$10.9 million, net of cash delivered with the business.

Note 5: Discontinued Operations

During the fourth quarter of 2019, we committed to a plan to sell Grass Valley, and at such time, met all of the criteria to classify the assets and liabilities of this business as held for sale. Furthermore, the divestiture of Grass Valley represented a strategic shift that had a major impact on our operations and financial results. As a result, the Grass Valley disposal group, which was included in our Enterprise Solutions segment, was reported within discontinued operations. The Grass Valley disposal group excluded certain Grass Valley pension liabilities that we retained. We also ceased depreciating and amortizing the assets of the disposal group once they met the held for sale criteria during the fourth quarter of 2019.

We completed the sale of Grass Valley to Black Dragon Capital on July 2, 2020 for gross cash consideration of \$120.0 million, or approximately \$56.2 million net of cash delivered with the business. The sale also included deferred consideration consisting of a \$175.0 million seller's note that is expected to mature in 2025, up to \$88 million in PIK (payment-in-kind) interest on the seller's note, and \$178.0 million in potential earnout payments. The seller's note accrues PIK interest at an annual rate of 8.5%. During the three and six months ended July 4, 2021, the seller's note accrued interest of \$4.0 million and \$7.7 million, respectively, which we reserved for based on our expected loss allowance methodology. Based upon a third party valuation specialist using certain assumptions in a Monte Carlo analysis, the estimated fair value of the seller's note is \$34.9 million, which we recorded in Other Long-Lived Assets. We accounted for the earnout under a loss recovery approach and did not record an asset as of the disposal date. Any subsequent recognition of an earnout will be based on the gain contingency guidance.

As part of the transaction, we also invested \$3.0 million for a 9% equity interest in Grass Valley with the right to put the equity back to Black Dragon Capital. We exercised our right during the fourth quarter of 2020 and sold our 9% equity interest in Grass Valley to Black Dragon Capital for \$2.7 million. We deconsolidated Grass Valley as of July 2, 2020 and accounted for our equity interest under the cost method for the period that we owned a 9% interest in Grass Valley. Grass Valley's operating results for periods after July 2, 2020 are not included in our Consolidated Financial Statements.

The following table summarizes the operating results of the disposal group for the three and six months ended June 28, 2020 (in thousands):

	Three Months Ended June 28, 2020	Six Months Ended June 28, 2020
	(In Thousands)	
Revenues	\$ 56,812	\$ 107,861
Cost of sales	(33,989)	(69,191)
Gross profit	22,823	38,670
Selling, general and administrative expenses	(19,342)	(36,861)
Research and development expenses	(5,974)	(14,473)
Asset impairment of discontinued operations	(89,810)	(113,007)
Interest expense, net	(214)	(420)
Non-operating pension cost	(111)	(196)
Loss before taxes	<u>\$ (92,628)</u>	<u>\$ (126,287)</u>

We wrote down the carrying value of Grass Valley and recognized asset impairments totaling \$89.8 million and \$113.0 million in the three and six months ended June 28, 2020, respectively. We determined the estimated fair values of the assets and of the reporting unit by calculating the present values of their estimated future cash flows.

The disposal group had capital expenditures of approximately \$8.5 million and \$16.4 million during the three and six months ended June 28, 2020, respectively. The disposal group recognized credits to stock-based compensation of \$0.0 million and \$0.9 million during the three and six months ended June 28, 2020, respectively. The disposal group did not have any significant non-cash charges for investing activities during the six months ended June 28, 2020.

Note 6: Reportable Segments

We are organized around two global businesses: Enterprise Solutions and Industrial Solutions. Each of the global businesses represents a reportable segment.

The key measures of segment profit or loss are Segment Revenues and Segment EBITDA. Segment Revenues represent non-affiliate revenues and include revenues that would have otherwise been recorded by acquired businesses as independent entities but were not recognized in our Condensed Consolidated Statements of Operations and Comprehensive Income due to the effects of purchase accounting and the associated write-down of acquired deferred revenue to fair value. Segment EBITDA excludes certain items, including depreciation expense; amortization of intangibles; asset impairment; severance, restructuring, and acquisition integration costs; purchase accounting effects related to acquisitions, such as the adjustment of acquired inventory and deferred revenue to fair value; and other costs. We allocate corporate expenses to the segments for purposes of

measuring Segment EBITDA. Corporate expenses are allocated on the basis of each segment's relative EBITDA prior to the allocation.

Our measure of segment assets does not include cash, goodwill, intangible assets, deferred tax assets, or corporate assets. All goodwill is allocated to reporting units of our segments for purposes of impairment testing. Inter-company revenues between our segments is not material.

	Enterprise Solutions	Industrial Solutions	Total Segments
	(In thousands)		
As of and for the three months ended July 4, 2021			
Segment revenues	\$ 267,528	\$ 335,295	\$ 602,823
Segment EBITDA	35,269	56,731	92,000
Depreciation expense	5,365	6,002	11,367
Amortization of intangibles	4,439	4,663	9,102
Amortization of software development intangible assets	20	587	607
Severance, restructuring, and acquisition integration costs	2,460	580	3,040
Adjustments related to acquisitions and divestitures	(32)	1,944	1,912
Segment assets	522,635	625,325	1,147,960
As of and for the three months ended June 28, 2020			
Segment revenues	\$ 203,374	\$ 221,437	\$ 424,811
Segment EBITDA	22,231	26,449	48,680
Depreciation expense	5,122	5,210	10,332
Amortization of intangibles	5,354	10,663	16,017
Amortization of software development intangible assets	56	330	386
Severance, restructuring, and acquisition integration costs	2,423	2,049	4,472
Adjustments related to acquisitions and divestitures	105	—	105
Segment assets	502,767	464,862	967,629
As of and for the six months ended July 4, 2021			
Segment revenues	\$ 493,883	\$ 645,321	\$ 1,139,204
Segment EBITDA	63,375	108,094	171,469
Depreciation expense	10,715	12,212	22,927
Amortization of intangibles	8,775	10,274	19,049
Amortization of software development intangible assets	52	1,244	1,296
Severance, restructuring, and acquisition integration costs	4,375	3,836	8,211
Adjustments related to acquisitions and divestitures	(6,318)	8,851	2,533
Segment assets	522,635	625,325	1,147,960
As of and for the six months ended June 28, 2020			
Segment revenues	\$ 415,587	\$ 472,750	\$ 888,337
Segment EBITDA	46,943	61,976	108,919
Depreciation expense	10,203	10,411	20,614
Amortization of intangibles	10,858	21,344	32,202
Amortization of software development intangible assets	111	605	716
Severance, restructuring, and acquisition integration costs	4,973	3,118	8,091
Adjustments related to acquisitions and divestitures	125	—	125
Segment assets	502,767	464,862	967,629

The following table is a reconciliation of the total of the reportable segments' Revenues and EBITDA to consolidated revenues and consolidated income from continuing operations before taxes, respectively.

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Total Segment Revenues	\$ 602,823	\$ 424,811	\$ 1,139,204	\$ 888,337
Adjustments related to acquisitions	(849)	—	(849)	—
Consolidated Revenues	<u>\$ 601,974</u>	<u>\$ 424,811</u>	<u>\$ 1,138,355</u>	<u>\$ 888,337</u>
Total Segment EBITDA	\$ 92,000	\$ 48,680	\$ 171,469	\$ 108,919
Amortization of intangibles	(9,102)	(16,017)	(19,049)	(32,202)
Depreciation expense	(11,367)	(10,332)	(22,927)	(20,614)
Severance, restructuring, and acquisition integration costs (1)	(3,040)	(4,472)	(8,211)	(8,091)
Amortization of software development intangible assets	(607)	(386)	(1,296)	(716)
Adjustments related to acquisitions and divestitures (2)	(1,912)	(105)	(2,533)	(125)
Eliminations	(15)	(238)	(48)	(333)
Consolidated operating income	<u>65,957</u>	<u>17,130</u>	<u>117,405</u>	<u>46,838</u>
Interest expense, net	(14,878)	(14,257)	(30,389)	(27,581)
Total non-operating pension benefit	<u>1,445</u>	<u>700</u>	<u>2,129</u>	<u>1,399</u>
Consolidated income from continuing operations before taxes	<u>\$ 52,524</u>	<u>\$ 3,573</u>	<u>\$ 89,145</u>	<u>\$ 20,656</u>

(1) See Note 12, Severance, Restructuring, and Acquisition Integration Activities, for details.

(2) During the three months ended July 4, 2021, we collected \$0.1 million of receivables associated with the sale of Grass Valley that were previously written off, recognized deferred revenues of \$0.8 million for the purchase accounting effect of recording deferred revenue at fair value for the OTN acquisition, and recognized cost of sales of \$1.2 million related to purchase accounting adjustments of acquired inventory to fair value for the OTN acquisition. During the six months ended July 4, 2021, we reduced the Opterna earn-out liability by \$5.8 million, recognized a \$3.6 million impairment on assets held and used, recognized a \$3.4 million impairment on assets held for sale, collected \$1.5 million of receivables associated with the sale of Grass Valley that were previously written off, recognized cost of sales of \$2.0 million related to purchase accounting adjustments of acquired inventory to fair value for the OTN acquisition, and recognized deferred revenues of \$0.8 million for the purchase accounting effect of recording deferred revenue at fair value for the OTN acquisition. During the three and six months ended June 28, 2020, we recognized cost of sales related to purchase accounting adjustments of acquired inventory to fair value for the SPC acquisition.

Note 7: Income (loss) per Share

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

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Numerator:				
Income from continuing operations	\$ 43,972	\$ 3,173	\$ 72,713	\$ 18,064
Less: Net income (loss) attributable to noncontrolling interest	208	24	283	(6)
Income from continuing operations attributable to Belden stockholders	43,764	3,149	72,430	18,070
Add: Loss from discontinued operations, net of tax	—	(71,054)	—	(97,164)
Net income (loss) attributable to Belden stockholders	<u>\$ 43,764</u>	<u>\$ (67,905)</u>	<u>\$ 72,430</u>	<u>\$ (79,094)</u>
Denominator:				
Weighted average shares outstanding, basic	44,759	44,557	44,717	44,969
Effect of dilutive common stock equivalents	503	108	445	128
Weighted average shares outstanding, diluted	45,262	44,665	45,162	45,097

For both the three and six months ended July 4, 2021, diluted weighted average shares outstanding exclude outstanding equity awards of 1.3 million as they are anti-dilutive. In addition, for both the three and six months ended July 4, 2021, diluted weighted average shares outstanding do not include outstanding equity awards of 0.4 million because the related performance conditions have not been satisfied.

For the three and six months ended June 28, 2020, diluted weighted average shares outstanding exclude outstanding equity awards of 1.7 million and 1.5 million, respectively, which are anti-dilutive. In addition, for both the three and six months ended June 28, 2020, diluted weighted average shares outstanding do not include outstanding equity awards of 0.4 million because the related performance conditions have not been satisfied.

For purposes of calculating basic earnings per share, unvested restricted stock units are not included in the calculation of basic weighted average shares outstanding until all necessary conditions have been satisfied and issuance of the shares underlying the restricted stock units is no longer contingent. Necessary conditions are not satisfied until the vesting date, at which time holders of our restricted stock units receive shares of our common stock.

For purposes of calculating diluted earnings per share, unvested restricted stock units are included to the extent that they are dilutive. In determining whether unvested restricted stock units are dilutive, each issuance of restricted stock units is considered separately.

Once a restricted stock unit has vested, it is included in the calculation of both basic and diluted weighted average shares outstanding.

Note 8: Credit Losses

Effective January 1, 2020, we adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments prospectively. This ASU replaces the incurred loss impairment model with an expected credit loss impairment model for financial instruments, including trade receivables. The amendment requires entities to consider forward-looking information to estimate expected credit losses, resulting in earlier recognition of losses for receivables that are current or not yet due, which were not considered under the previous accounting guidance. Upon adoption, we recorded a noncash cumulative effect adjustment to retained earnings of \$2.9 million. Of this amount, \$1.0 million related to our continuing operations and \$1.9 million related to our discontinued operations.

We are exposed to credit losses primarily through sales of products and services. Our expected loss allowance methodology for accounts receivable is developed using historical collection experience, current and future economic and market conditions and a review of the current status of customers' trade accounts receivables. Due to the short-term nature of such receivables, the estimated amount of accounts receivable that may not be collected is based on aging of the accounts receivable balances and the financial condition of customers. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. Our monitoring activities include timely account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible.

Estimates are used to determine the allowance, which is based upon an assessment of anticipated payments as well as other information that is reasonably available. The following table presents the activity in the trade receivables allowance for doubtful accounts for our continuing operations for the three and six months ended July 4, 2021 and June 28, 2020, respectively:

	2021	2020
	(In thousands)	
Beginning balance at January 1	\$ 5,150	\$ 2,569
Adoption adjustment	—	1,011
Current period provision	82	(172)
Write-offs	(57)	—
Recoveries collected	(23)	(9)
Fx impact	(17)	(213)
Q1 ending balance	5,135	3,186
Current period provision	305	2,621
Disposals	(192)	—
Write-offs	(20)	(52)
Recoveries collected	(36)	(100)
Fx impact	(25)	37
Q2 ending balance	\$ 5,167	5,692

Note 9: Inventories

The following table presents the major classes of inventories as of July 4, 2021 and December 31, 2020, respectively:

	July 4, 2021	December 31, 2020
	(In thousands)	
Raw materials	\$ 139,282	\$ 106,514
Work-in-process	37,477	32,011
Finished goods	163,281	141,042
Gross inventories	340,040	279,567
Excess and obsolete reserves	(35,219)	(32,269)
Net inventories	\$ 304,821	\$ 247,298

Note 10: Leases

We have operating and finance leases for properties, including manufacturing facilities, warehouses, and office space; as well as vehicles and certain equipment. We make certain judgments in determining whether a contract contains a lease in accordance with ASU 2016-02. Our leases have remaining lease terms of less than 1 year to 15 years; some of which include extension and termination options for an additional 15 years or within 1 year, respectively. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably certain as of the commencement date of the lease. Our lease agreements do not contain any material residual value guarantees or material variable lease payments.

We have entered into various short-term operating leases with an initial term of twelve months or less. These leases are not recorded on our balance sheet, and for the three and six months ended July 4, 2021 and June 28, 2020, the rent expense for short-term leases was not material.

We have certain property and equipment lease contracts that may contain lease and non-lease components, and we have elected to utilize the practical expedient to account for these components together as a single combined lease component.

As the rate implicit in most of our leases is not readily determinable, we use the incremental borrowing rate to determine the present value of the lease payments, which is unique to each leased asset, and is based upon the term of the lease, commencement date of the lease, local currency of the leased asset, and the credit rating of the legal entity leasing the asset.

We are party to a lease guarantee, whereby Belden has covenanted the lease payments for one of Snell Advanced Media's (SAM) property leases through its 2035 expiration date. The lease guarantee was executed in 2018 following the acquisition of SAM, which we subsequently sold on July 2, 2020 as part of the Grass Valley disposal group (see Note 5). This lease guarantee was retained by Belden and not transferred to Black Dragon Capital as part of the sale of Grass Valley. Belden would be required to make lease payments only if the primary obligor, Black Dragon Capital, fails to make the payments. As of July 4, 2021, the SAM lease has approximately \$21.2 million of lease payments remaining, but we do not believe that it is probable that we have incurred a liability from the guarantee.

The components of lease expense were as follows:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Operating lease cost	\$ 4,998	\$ 3,344	\$ 8,846	\$ 6,941
Finance lease cost				
Amortization of right-of-use asset	\$ 22	\$ 33	\$ 55	\$ 66
Interest on lease liabilities	2	4	5	9
Total finance lease cost	\$ 24	\$ 37	\$ 60	\$ 75

Supplemental cash flow information related to leases was as follows:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 4,238	\$ 3,670	\$ 8,373	\$ 7,461
Operating cash flows from finance leases	2	4	5	9
Financing cash flows from finance leases	32	41	75	87

Supplemental balance sheet information related to leases was as follows:

	July 4, 2021	December 31, 2020
	(In thousands, except lease term and discount rate)	
Operating leases:		
Total operating lease right-of-use assets	\$ 59,509	\$ 54,787
Accrued liabilities	\$ 16,207	\$ 14,742
Long-term operating lease liabilities	49,805	46,398
Total operating lease liabilities	\$ 66,012	\$ 61,140
Finance leases:		
Other long-lived assets, at cost	\$ 536	\$ 764
Accumulated depreciation	(307)	(483)
Other long-lived assets, net	\$ 229	\$ 281
Weighted Average Remaining Lease Term		
Operating leases	5 years	5 years
Finance leases	2 years	3 years
Weighted Average Discount Rate		
Operating leases	6.0 %	6.6 %
Finance leases	4.6 %	4.9 %

The following table summarizes maturities of lease liabilities as of July 4, 2021 and December 31, 2020, respectively:

	July 4, 2021	December 31, 2020
	(In thousands)	
2021	\$ 10,464	\$ 19,250
2022	19,172	16,305
2023	15,096	12,552
2024	11,950	9,516
2025	10,843	8,718
Thereafter	11,918	8,901
Total	\$ 79,443	\$ 75,242

Note 11: Long-Lived Assets

Depreciation and Amortization Expense

We recognized depreciation expense of \$11.4 million and \$22.9 million in the three and six months ended July 4, 2021, respectively. We recognized depreciation expense of \$10.3 million and \$20.6 million in the three and six months ended June 28, 2020, respectively.

We recognized amortization expense related to our intangible assets of \$9.7 million and \$20.3 million in the three and six months ended July 4, 2021, respectively. We recognized amortization expense related to our intangible assets of \$16.4 million and \$32.9 million in the three and six months ended June 28, 2020, respectively.

Interim Impairment Test

During the first quarter of 2021, we committed to a plan to sell our oil and gas cable business in Brazil, and recognized an impairment charge of \$3.4 million. During the second quarter of 2021, we completed the sale of this business. See Note 4.

Also in the first quarter of 2021, we performed a recoverability test over certain held and used long-lived assets in our Industrial Solutions segment as a result of the likelihood of selling the assets. We determined that the carrying values of the assets were not recoverable and recognized a \$3.6 million impairment charge in Selling, General and Administrative Expenses during the six months ended July 4, 2021 to write them down to fair value. This impairment charge was excluded from Segment EBITDA of our Industrial Solutions segment.

Note 12: Severance, Restructuring, and Acquisition Integration Activities

Cost Reduction Program

During the fourth quarter of 2019, we began a cost reduction program to improve performance and enhance margins by streamlining the organizational structure and investing in technology to drive productivity. We recognized \$1.2 million and \$3.5 million of severance and other restructuring costs for this program during the three and six months ended July 4, 2021, respectively, and \$3.5 million and \$3.0 million during the three and six months ended June 28, 2020, respectively. These costs were incurred by both the Enterprise Solutions and Industrial Solutions segments. The cost reduction program is expected to deliver an estimated \$60 million reduction in selling, general, and administrative expenses on an annual basis. We expect to incur incremental costs of approximately \$5 million for this program in 2021.

Acquisition Integration Program

We are integrating our recent acquisitions such as OTN, SPC, and Opterna with our existing businesses. The restructuring and integration activities are focused on achieving desired cost savings by consolidating existing and acquired facilities and other support functions. We recognized \$0.6 million and \$2.4 million of severance and other restructuring costs for this program during the three and six months ended July 4, 2021, respectively. We recognized \$0.9 million and \$3.1 million of severance and other restructuring costs for this program during the three and six months ended June 28, 2020, respectively. These costs were incurred by both the Enterprise Solutions and Industrial Solutions segments. We expect to incur incremental costs of approximately \$2.0 million for this program in 2021.

The following table summarizes the costs by segment of the programs described above as well as other immaterial programs and acquisition integration activities during the three and six months ended July 4, 2021 and June 28, 2020:

	Severance	Other Restructuring and Integration Costs	Total Costs
	(In thousands)		
Three Months Ended July 4, 2021			
Enterprise Solutions	\$ 64	\$ 2,396	\$ 2,460
Industrial Solutions	335	245	580
Total	<u>\$ 399</u>	<u>\$ 2,641</u>	<u>\$ 3,040</u>
Three Months Ended June 28, 2020			
Enterprise Solutions	\$ 1,467	\$ 956	\$ 2,423
Industrial Solutions	1,773	276	2,049
Total	<u>\$ 3,240</u>	<u>\$ 1,232</u>	<u>\$ 4,472</u>
Six Months Ended July 4, 2021			
Enterprise Solutions	\$ 1,108	\$ 3,267	\$ 4,375
Industrial Solutions	1,702	2,134	3,836
Total	<u>\$ 2,810</u>	<u>\$ 5,401</u>	<u>\$ 8,211</u>
Six Months Ended June 28, 2020			
Enterprise Solutions	\$ 835	\$ 4,138	\$ 4,973
Industrial Solutions	818	2,300	3,118
Total	<u>\$ 1,653</u>	<u>\$ 6,438</u>	<u>\$ 8,091</u>

The other restructuring and integration costs primarily consisted of equipment transfer, costs to consolidate operating and support facilities, retention bonuses, relocation, travel, legal, and other costs. The majority of the other restructuring and integration costs related to these actions were paid as incurred or are payable within the next 60 days.

The following table summarizes the costs of the various programs described above as well as other immaterial programs and acquisition integration activities by financial statement line item in the Condensed Consolidated Statement of Operations:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In Thousands)			
Cost of sales	\$ 1,103	\$ 92	\$ 1,363	\$ 137
Selling, general and administrative expenses	1,937	4,380	6,848	7,954
Total	\$ 3,040	\$ 4,472	\$ 8,211	\$ 8,091

Accrued Severance

The table below summarizes severance activity, included in accrued liabilities, for the Cost Reduction Program and the Acquisition Integration Program discussed above for the three and six months ended July 4, 2021 and June 28, 2020, respectively.

	2021	2020
	(In thousands)	
Beginning year balance	\$ 7,085	\$ 19,575
New charges	2,060	2,529
Cash payments	(1,798)	(4,483)
Foreign currency translation	49	(89)
Other adjustments	—	(4,147)
Balance at the end of Q1	7,396	13,385
New charges	458	4,660
Cash payments	(1,023)	(4,795)
Foreign currency translation	(4)	(132)
Other adjustments	(59)	(1,420)
Balance at the end of Q2	\$ 6,768	\$ 11,698

The other adjustments were the result of changes in estimates. We experienced higher than expected voluntary turnover, and as a result, certain approved severance actions were not taken.

Note 13: Long-Term Debt and Other Borrowing Arrangements

The carrying values of our long-term debt were as follows:

	July 4, 2021	December 31, 2020
	(In thousands)	
Revolving credit agreement due 2026	\$ —	\$ —
Senior subordinated notes:		
2.875% Senior subordinated notes due 2025	356,010	367,110
4.125% Senior subordinated notes due 2026	237,340	244,740
3.375% Senior subordinated notes due 2027	534,015	550,665
3.875% Senior subordinated notes due 2028	415,345	428,295
Total senior subordinated notes	1,542,710	1,590,810
Less unamortized debt issuance costs	(15,663)	(17,084)
Long-term debt	\$ 1,527,047	\$ 1,573,726

Revolving Credit Agreement due 2026

On June 2, 2021, we entered into an amended and restated Revolving Credit Agreement that provides a \$300.0 million multi-currency asset-based revolving credit facility (the Revolver). The maturity date of the Revolver is June 2, 2026. The borrowing base under the Revolver includes eligible accounts receivable; inventory; and property, plant and equipment of certain of our subsidiaries in the United States, Canada, Germany, the United Kingdom and the Netherlands. Interest on outstanding borrowings is variable, based upon LIBOR or other similar indices in foreign jurisdictions, plus a spread that ranges from 1.25%-1.75%, depending upon our leverage position. Outstanding borrowings in the U.S. and Canada may also, at our election, be priced on a base rate plus a spread that ranges from 0.25% — 0.75%, depending on our leverage position. We pay a commitment fee on the total commitments of 0.25%. In the event that we borrow more than 90% of our combined borrowing base or our borrowing base availability is less than \$20.0 million, we are subject to a fixed charge coverage ratio covenant. We paid approximately \$1.7 million of fees associated with the amended Revolver, which will be amortized over its term using the effective interest method. As of July 4, 2021, we had no borrowings outstanding on the Revolver, and our available borrowing capacity was \$294.1 million.

Senior Subordinated Notes

We have outstanding €300.0 million aggregate principal amount of 2.875% senior subordinated notes due 2025 (the 2025 Notes). The carrying value of the 2025 Notes as of July 4, 2021 is \$356.0 million. The 2025 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2025 Notes rank equal in right of payment with our senior subordinated notes due 2028, 2027, and 2026 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on March 15 and September 15 of each year.

We have outstanding €200.0 million aggregate principal amount of 4.125% senior subordinated notes due 2026 (the 2026 Notes). The carrying value of the 2026 Notes as of July 4, 2021 is \$237.3 million. The 2026 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2026 Notes rank equal in right of payment with our senior subordinated notes due 2028, 2027, and 2025 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on April 15 and October 15 of each year.

We have outstanding €450.0 million aggregate principal amount of 3.375% senior subordinated notes due 2027 (the 2027 Notes). The carrying value of the 2027 Notes as of July 4, 2021 is \$534.0 million. The 2027 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2027 Notes rank equal in right of payment with our senior subordinated notes due 2028, 2026, and 2025 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on January 15 and July 15 of each year.

We have outstanding €350.0 million aggregate principal amount of 3.875% senior subordinated notes due 2028 (the 2028 Notes). The carrying value of the 2028 Notes as of July 4, 2021 is \$415.3 million. The 2028 Notes are guaranteed on a senior subordinated basis by our current and future domestic subsidiaries. The 2028 Notes rank equal in right of payment with our senior subordinated notes due 2027, 2026, and 2025 and with any future subordinated debt, and they are subordinated to all of our senior debt and the senior debt of our subsidiary guarantors, including our Revolver. Interest is payable semiannually on March 15 and September 15 of each year.

On July 28, 2021, we completed an offering for €300.0 million aggregate principal amount of 3.375% senior subordinated notes due 2031 (the 2031 Notes). We intend to use the net proceeds from the offering of the 2031 Notes, along with cash on hand, to fund the redemption in full of our 2025 Notes. See Note 19.

Fair Value of Long-Term Debt

The fair value of our senior subordinated notes as of July 4, 2021 was approximately \$1,584.0 million based on quoted prices of the debt instruments in inactive markets (Level 2 valuation). This amount represents the fair value of our senior subordinated notes with a carrying value of \$1,542.7 million as of July 4, 2021.

Note 14: Net Investment Hedge

All of our euro denominated notes were issued by Belden Inc., a USD functional currency entity. As of July 4, 2021, €767.8 million of our outstanding foreign denominated debt is designated as a net investment hedge on the foreign currency risk of our net investment in our euro foreign operations. The objective of the hedge is to protect the net investment in the foreign operation against adverse changes in the euro exchange rate. The transaction gain or loss is reported in the translation adjustment section of other comprehensive income. For the six months ended July 4, 2021 and June 28, 2020, the transaction gain associated with the net investment hedge reported in other comprehensive income was \$28.8 million and \$18.2 million, respectively. During the six months ended June 28, 2020, we de-designated €532.2 million of our outstanding debt that was previously designated as a net investment hedge. After the de-designation, transaction gains or losses associated with this €532.2 million of debt are reported in income from continuing operations.

Note 15: Income Taxes

For the three and six months ended July 4, 2021, we recognized income tax expense of \$8.6 million and \$16.4 million, respectively, representing an effective tax rate of 16.3% and 18.4%, respectively. The effective tax rates were primarily impacted by the effect of our foreign operations, including statutory tax rates differences and foreign tax credits.

For the three and six months ended June 28, 2020, we recognized income tax expense of \$0.4 million and \$2.6 million, respectively, representing an effective tax rate of 11.2% and 12.5%, respectively. The effective tax rates were impacted by income tax benefits for certain foreign tax credits of \$0.1 million and \$1.2 million in the three and six months ended June 28, 2020, respectively.

Note 16: Pension and Other Postretirement Obligations

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

Three Months Ended	Pension Obligations		Other Postretirement Obligations	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Service cost	\$ 1,155	\$ 892	\$ 9	\$ 8
Interest cost	1,897	2,410	186	195
Expected return on plan assets	(4,527)	(4,004)	—	—
Amortization of prior service cost	28	45	—	—
Actuarial losses (gains)	976	673	(5)	(19)
Net periodic benefit cost (benefit)	<u>\$ (471)</u>	<u>\$ 16</u>	<u>\$ 190</u>	<u>\$ 184</u>

Six Months Ended	Pension Obligations		Other Postretirement Obligations	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Service cost	\$ 2,041	\$ 1,824	\$ 18	\$ 16
Interest cost	3,703	4,747	363	397
Expected return on plan assets	(8,195)	(7,944)	—	—
Amortization of prior service cost	56	89	—	—
Actuarial losses (gains)	1,955	1,350	(11)	(38)
Net periodic benefit cost (benefit)	<u>\$ (440)</u>	<u>\$ 66</u>	<u>\$ 370</u>	<u>\$ 375</u>

Note 17: Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

The following table summarizes total comprehensive income (losses):

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
	(In thousands)			
Net income (loss)	\$ 43,972	\$ (67,881)	\$ 72,713	\$ (79,100)
Foreign currency translation adjustments, net of tax	(22,257)	(44,671)	30,507	(22,881)
Adjustments to pension and postretirement liability, net of tax	763	372	1,527	755
Total comprehensive income (loss)	22,478	(112,180)	104,747	(101,226)
Less: Comprehensive income (loss) attributable to noncontrolling interests	(21)	171	(143)	(9)
Comprehensive income (loss) attributable to Belden	<u>\$ 22,499</u>	<u>\$ (112,351)</u>	<u>\$ 104,890</u>	<u>\$ (101,217)</u>

The tax impacts of the foreign currency translation adjustments and pension liability adjustments in the table above are not material.

The accumulated balances related to each component of other comprehensive income (loss), net of tax, are as follows:

	Foreign Currency Translation Component	Pension and Other Postretirement Benefit Plans	Accumulated Other Comprehensive Income (Loss)
	(In thousands)		
Balance at December 31, 2020	\$ (131,181)	\$ (60,670)	\$ (191,851)
Other comprehensive income attributable to Belden before reclassifications	31,910	—	31,910
Amounts reclassified from accumulated other comprehensive income (loss)	(977)	1,527	550
Net current period other comprehensive income attributable to Belden	30,933	1,527	32,460
Balance at July 4, 2021	<u>\$ (100,248)</u>	<u>\$ (59,143)</u>	<u>\$ (159,391)</u>

The following table summarizes the effects of reclassifications from accumulated other comprehensive income (loss) for the six months ended July 4, 2021:

	Amount Reclassified from Accumulated Other Comprehensive Income (2)	Affected Line Item in the Consolidated Statements of Operations and Comprehensive Income
	(In thousands)	
Amortization of pension and other postretirement benefit plan items:		
Actuarial losses	\$ 1,944	(1)
Prior service cost	56	(1)
Total before tax	2,000	
Tax benefit	(473)	
Total net of tax	\$ 1,527	

(1) The amortization of these accumulated other comprehensive income (loss) components are included in the computation of net periodic benefit costs (see Note 16).

(2) We reclassified \$1.0 million of accumulated foreign currency translation gains associated with the sale of our oil and gas cable business in Brazil.

Note 18: Share Repurchase

On November 29, 2018, our Board of Directors authorized a share repurchase program, which allows us to purchase up to \$300.0 million of our common stock through open market repurchases, negotiated transactions, or other means, in accordance with applicable securities laws and other restrictions. This program is funded with cash on hand and cash flows from operating activities. During the six months ended July 4, 2021, we did not repurchase any stock. During the three months ended June 28, 2020, we repurchased 0.4 million shares of our common stock under the share repurchase program for an aggregate cost of \$13.8 million at an average price per share of \$35.80. During the six months ended June 28, 2020, we repurchased 1.0 million shares of our common stock under the share repurchase program for an aggregate cost of \$35.0 million at an average price per share of \$35.83.

Note 19: Subsequent Events

On July 28, 2021, we completed an offering for €300.0 million aggregate principal amount of 3.375% senior subordinated notes due 2031 (the 2031 Notes). We intend to use the net proceeds from the offering of the 2031 Notes, along with cash on hand, to fund the redemption in full of our 2025 Notes.

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

Overview

Belden Inc. (the Company, us, we, or our) is a global supplier of specialty networking solutions built around two global businesses - Enterprise Solutions and Industrial Solutions. Our comprehensive portfolio of solutions enables customers to transmit and secure data, sound, and video for mission critical applications across complex enterprise and industrial environments.

We strive for operational excellence through the execution of our Belden Business System, which includes three areas of focus: Lean enterprise initiatives, our Market Delivery System, and our Talent Management System. Through operational excellence we generate free cash flow on an annual basis. We utilize the cash flow generated by our business to fuel our continued transformation and generate shareholder value. We believe our business system, balance across markets and geographies, systematic go-to-market approach, extensive portfolio of innovative solutions, commitment to Lean principles, and improving margins present a unique value proposition for shareholders.

We use a set of tools and processes that are designed to continuously improve business performance in the critical areas of quality, delivery, cost, and innovation. We consider revenue growth, Adjusted EBITDA margin, free cash flows, and return on invested capital to be our key operating performance indicators. We also seek to acquire businesses that we believe can help us achieve these objectives.

Trends and Events

The following trends and events during 2021 have had varying effects on our financial condition, results of operations, and cash flows.

Global Pandemic

On March 11, 2020, the World Health Organization (WHO) declared the outbreak of the novel coronavirus (COVID-19) a pandemic. Since the beginning of the pandemic, our foremost focus has been on the health and safety of our employees and customers. In response to the outbreak, to protect the health and safety of our employees, we modified practices at our manufacturing locations and offices to adhere to guidance from the WHO, the U.S. Centers for Disease Control and Prevention and other local health and governmental authorities with respect to social distancing, physical separation, personal protective equipment and sanitization. In light of variant mutations of the virus, even as vaccinations become more prevalent and more employees return to our offices, many of these safeguards will continue.

Our suppliers, distributors, and other partners have similarly had their operations disrupted, and in regions of the world where infection rates have remained high, human suffering and market disruptions have persisted. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by local or foreign governmental authorities, or that we determine are in the best interests of our employees and customers.

Foreign currency

Our exposure to currency rate fluctuations primarily relates to exchange rate movements between the U.S. dollar and the Euro, Canadian dollar, Hong Kong dollar, Chinese yuan, Mexican peso, Australian dollar, British pound, and Indian rupee. Generally, as the U.S. dollar strengthens against these foreign currencies, our revenues and earnings are negatively impacted as our foreign denominated revenues and earnings are translated into U.S. dollars at a lower rate. Conversely, as the U.S. dollar weakens against foreign currencies, our revenues and earnings are positively impacted. Approximately 49% of our consolidated revenues during the quarter ended July 4, 2021 were to customers outside of the U.S.

In addition to the translation impact described above, currency rate fluctuations have an economic impact on our financial results. As the U.S. dollar strengthens or weakens against foreign currencies, it results in a relative price increase or decrease for certain of our products that are priced in U.S. dollars in a foreign location.

Commodity prices

Our operating results can be affected by changes in prices of commodities, primarily copper and compounds, which are components in some of the products we sell. Generally, as the costs of inventory purchases increase due to higher commodity prices, we raise selling prices to customers to cover the increase in costs, resulting in higher sales revenue but a lower gross profit percentage. Conversely, a decrease in commodity prices would result in lower sales revenue but a higher gross profit percentage. Selling prices of our products are affected by many factors, including end market demand, capacity utilization, overall economic conditions, and commodity prices. During periods of inflation, if we are unable to raise prices timely and sufficiently to recover our material costs, our earnings could decline. We are mindful of ongoing inflationary pressures and as a result, proactively implement selling price increases and cost control measures. Importantly, however, there is no exact measure of the effect of changing commodity prices, as there are thousands of transactions in any given quarter, each of which has various factors involved in the individual pricing decisions. Therefore, all references to the effect of copper prices or other commodity prices are estimates.

Channel Inventory

Our operating results also can be affected by the levels of Belden products purchased and held as inventory by our channel partners and customers. Our channel partners and customers purchase and hold the products they bought from us in their inventory in order to meet the service and on-time delivery requirements of their customers. Generally, as our channel partners and customers change the level of products they buy from us and hold in their inventory, it impacts our revenues. Comparisons of our results between periods can be impacted by changes in the levels of channel inventory. We use information provided to us by our channel partners and make certain assumptions based on our sales to them to determine the amount of products they bought from us and hold in their inventory. As such, all references to the effect of channel inventory changes are estimates.

Market Growth and Market Share

The markets in which we operate can generally be characterized as highly competitive and highly fragmented, with many players. We monitor available data regarding market growth, including independent market research reports, publicly available indices, and the financial results of our direct and indirect peer companies, in order to estimate the extent to which our served markets grew or contracted during a particular period. We expect that our unit sales volume will increase or decrease consistently with the market growth rate. Our strategic goal is to utilize our Market Delivery System to target faster growing geographies, applications, and trends within our end markets, in order to achieve growth that is higher than the general market growth rate. To the extent that we exceed the market growth rates, we consider it to be the result of capturing market share.

Amended Revolving Credit Agreement

On June 2, 2021, we entered into an amended and restated Revolving Credit Agreement that provides a \$300.0 million multi-currency asset-based revolving credit facility (the Revolver). The maturity date of the Revolver is June 2, 2026. The borrowing base under the Revolver includes eligible accounts receivable; inventory; and property, plant and equipment of certain of our subsidiaries in the United States, Canada, Germany, the United Kingdom and the Netherlands. Interest on outstanding borrowings is variable, based upon LIBOR or other similar indices in foreign jurisdictions, plus a spread that ranges from 1.25%-1.75%, depending upon our leverage position. We paid approximately \$1.7 million of fees associated with the amended Revolver, which will be amortized over its term using the effective interest method. As of July 4, 2021, we had no borrowings outstanding on the Revolver, and our available borrowing capacity was \$294.1 million. See Note 13.

OTN acquisition

We acquired 100% of the shares of OTN on January 29, 2021 for a purchase price, net of cash acquired, of \$73.3 million. OTN, based in Olen, Belgium, is a leading provider of easy to use and highly-reliable network solutions tailored for specific applications in harsh, mission-critical environments. The acquisition of OTN supports one of our key strategic priorities related to the growing demand for industrial automation by adding proprietary technology and mission-critical hardware and software products for more complete end-to-end solutions. The results of OTN have been included in our Condensed Consolidated Financial Statements from January 29, 2021, and are reported within the Industrial Solutions segment. See Note 3.

Disposal

We completed the sale of our oil and gas cable business in Brazil during the second quarter of 2021 for \$10.9 million, net of cash delivered with the business. During the first quarter of 2021, we committed to a plan to sell the business and determined that we met all of the criteria to classify the assets and liabilities of this business as held for sale. At such time, the carrying value of the disposal group exceeded the fair value less costs to sell, which we determined based upon the expected sale price, by \$3.4 million. Therefore, we recognized an impairment charge in Selling, General and Administrative Expenses equal to this amount in the first quarter of 2021. The impairment charge was excluded from Segment EBITDA of our Industrial Solutions segment. See Note 4.

Long-lived asset impairment

During the six months ended July 4, 2021, we also performed a recoverability test on certain held and used long-lived assets in our Industrial Solutions segment due to the presence of impairment indicators stemming from the increased probability of selling the assets. We determined that the carrying values of the assets were not recoverable and recognized a \$3.6 million impairment charge in Selling, General and Administrative Expenses to write them down to fair value. This impairment charge was excluded from Segment EBITDA of our Industrial Solutions segment. See Note 11.

Opterna earn-out

Our acquisition of Opterna in 2019 included potential earn-out consideration, which as of the acquisition date, had an estimated fair value of \$5.8 million. As the financial targets tied to the earn-out were not achieved within the contractual timeframe, we reduced the earn-out liability to zero and recognized a \$5.8 million benefit in Selling, General and Administrative Expenses in the six months ended July 4, 2021. This benefit was excluded from Segment EBITDA of our Enterprise Solutions segment. See Note 4.

Cost Reduction Program

During the fourth quarter of 2019, we began a cost reduction program to improve performance and enhance margins by streamlining the organizational structure and investing in technology to drive productivity. We recognized \$1.2 million and \$3.5 million of severance and other restructuring costs for this program during the three and six months ended July 4, 2021. The cost reduction program is expected to deliver an estimated \$60.0 million reduction in selling, general, and administrative expenses on an annual basis. We expect to incur incremental costs of approximately \$5 million for this program. See Note 12.

Acquisition Integration Program

We are integrating our recent acquisitions such as OTN, SPC, and Opterna with our existing businesses. The restructuring and integration activities were focused on achieving desired cost savings by consolidating existing and acquired facilities and other support functions. We recognized \$0.6 million and \$2.4 million of severance and other restructuring costs for this program during the three and six months ended July 4, 2021, respectively. We expect to incur incremental costs of approximately \$2.0 million for this program in 2021. See Note 12.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, results of operations, or cash flows that are or would be considered material to investors.

Critical Accounting Policies

During the six months ended July 4, 2021:

- We did not change any of our existing critical accounting policies from those listed in our 2020 Annual Report on Form 10-K;
- No existing accounting policies became critical accounting policies because of an increase in the materiality of associated transactions or changes in the circumstances to which associated judgments and estimates relate; and
- There were no significant changes in the manner in which critical accounting policies were applied or in which related judgments and estimates were developed.

Results of Operations

Consolidated Income before Taxes

	Three Months Ended				Six Months Ended			
	July 4, 2021	June 28, 2020		% Change	July 4, 2021	June 28, 2020		% Change
(In thousands, except percentages)								
Revenues	\$ 601,974	\$ 424,811		41.7 %	\$ 1,138,355	\$ 888,337		28.1 %
Gross profit	211,535	149,940		41.1 %	402,879	320,441		25.7 %
Selling, general and administrative expenses	(105,554)	(91,703)		15.1 %	(204,003)	(190,092)		7.3 %
Research and development expenses	(30,922)	(25,090)		23.2 %	(62,422)	(51,309)		21.7 %
Amortization of intangibles	(9,102)	(16,017)		(43.2)%	(19,049)	(32,202)		(40.8)%
Operating income	65,957	17,130		285.0 %	117,405	46,838		150.7 %
Interest expense, net	(14,878)	(14,257)		4.4 %	(30,389)	(27,581)		10.2 %
Non-operating pension benefit	1,445	700		106.4 %	2,129	1,399		52.2 %
Income from continuing operations before taxes	52,524	3,573		1,370.0 %	89,145	20,656		331.6 %

Revenues increased \$177.2 million and \$250.0 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 due to the following factors:

- Higher sales volume from industrial automation, smart buildings, and broadband & 5G products resulted in a \$118.6 million and \$154.4 million increase in revenues, respectively.
- Copper prices had a \$37.0 million and \$60.8 million favorable impact on revenues, respectively.
- Currency translation had a \$13.8 million and \$22.9 million favorable impact on revenues, respectively.
- Acquisitions contributed an estimated \$8.9 million and \$13.0 million in revenues, respectively.
- Divestitures had a \$1.1 million unfavorable impact on revenues in both the three and six months ended July 4, 2021 as compared to the year ago period.

Gross profit increased \$61.6 million and \$82.4 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 due to the increases in revenues discussed above.

Selling, general and administrative expenses increased \$13.9 million in both the three and six months ended July 4, 2021, respectively, from the comparable period of 2020. The increase in selling, general and administrative expenses is primarily attributable to the increase in incentive compensation, acquisitions, and the impact of currency translation, partially offset by a decline in severance, restructuring and acquisition integration costs and divestitures.

Research and development expenses increased \$5.8 million and \$11.1 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 primarily due to increased investments in R&D projects as we continue our commitment to growth initiatives.

Amortization of intangibles decreased \$6.9 million and \$13.2 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 primarily due to certain intangible assets becoming fully amortized.

Operating income increased \$48.8 million and \$70.6 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 primarily as a result of the increase in gross profit discussed above.

Net interest expense increased \$0.6 million and \$2.8 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 primarily due to currency translation.

Income from continuing operations before taxes increased \$49.0 million and \$68.5 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 primarily due to the increase in operating income discussed above.

Income Taxes

	Three Months Ended		%	Six Months Ended		%
	July 4, 2021	June 28, 2020	Change	July 4, 2021	June 28, 2020	Change
	(In thousands, except percentages)					
Income before taxes	\$ 52,524	\$ 3,573	1,370.0 %	\$ 89,145	\$ 20,656	331.6 %
Income tax expense	8,552	400	2,038.0 %	16,432	2,592	534.0 %
Effective tax rate	16.3 %	11.2 %		18.4 %	12.5 %	

For the three and six months ended July 4, 2021, we recognized income tax expense of \$8.6 million and \$16.4 million, representing an effective tax rate of 16.3% and 18.4%, respectively. The effective tax rate was primarily impacted by the effect of our foreign operations, including statutory tax rates differences and foreign tax credits. For the three and six months ended June 28, 2020, we recognized income tax expense of \$0.4 million and \$2.6 million, representing an effective tax rate of 11.2% and 12.5%, respectively. The effective tax rates were impacted by income tax benefits for certain foreign tax credits of \$0.1 million and \$1.2 million in the three and six months ended June 28, 2020, respectively.

Consolidated Adjusted Revenues and Adjusted EBITDA

	Three Months Ended		%	Six Months Ended		%
	July 4, 2021	June 28, 2020	Change	July 4, 2021	June 28, 2020	Change
	(In thousands, except percentages)					
Adjusted Revenues	\$ 602,823	\$ 424,811	41.9 %	\$ 1,139,204	\$ 888,337	28.2 %
Adjusted EBITDA	93,430	49,142	90.1 %	173,550	109,985	57.8 %
as a percent of adjusted revenues	15.5 %	11.6 %		15.2 %	12.4 %	

Adjusted Revenues increased \$178.0 million and \$250.9 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 due to the following factors:

- Higher sales volume from industrial automation, smart buildings, and broadband & 5G products resulted in a \$118.6 million and \$154.4 million increase in revenues, respectively.
- Copper prices had a \$37.0 million and \$60.8 million favorable impact on revenues, respectively.
- Currency translation had a \$13.8 million and \$22.9 million favorable impact on revenues, respectively.
- Acquisitions contributed an estimated \$9.7 million and \$13.9 million in revenues, respectively.
- Divestitures had a \$1.1 million unfavorable impact on revenues in both the three and six months ended July 4, 2021 as compared to the year ago period.

Adjusted EBITDA increased \$44.3 million and \$63.6 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020 primarily due to leverage on higher sales volume, as discussed above. Accordingly, Adjusted EBITDA margins in the three and six months ended July 4, 2021 expanded to 15.5% from 11.6% and 15.2% from 12.4%, respectively, in the comparable period of 2020.

Use of Non-GAAP Financial Information

Adjusted Revenues, Adjusted EBITDA, Adjusted EBITDA margin, and free cash flow are non-GAAP financial measures. In addition to reporting financial results in accordance with accounting principles generally accepted in the United States, we provide non-GAAP operating results adjusted for certain items, including: asset impairments; accelerated depreciation expense due to plant consolidation activities; purchase accounting effects related to acquisitions, such as the adjustment of acquired inventory and deferred revenue to fair value, and transaction costs; severance, restructuring, and acquisition integration costs; gains (losses) recognized on the disposal of businesses and tangible assets; amortization of intangible assets; gains (losses) on debt extinguishment; certain revenues and gains (losses) from patent settlements; discontinued operations; and other costs. We adjust for the items listed above in all periods presented, unless the impact is clearly immaterial to our financial statements. When we calculate the tax effect of the adjustments, we include all current and deferred income tax expense commensurate with the adjusted measure of pre-tax profitability.

We utilize the adjusted results to review our ongoing operations without the effect of these adjustments and for comparison to budgeted operating results. We believe the adjusted results are useful to investors because they help them compare our results to previous periods and provide important insights into underlying trends in the business and how management oversees our business operations on a day-to-day basis. As an example, we adjust for the purchase accounting effect of recording deferred revenue at fair value in order to reflect the revenues that would have otherwise been recorded by acquired businesses had they remained as independent entities. We believe this presentation is useful in evaluating the underlying performance of acquired companies. Similarly, we adjust for other acquisition-related expenses, such as amortization of intangibles and other impacts of fair value adjustments because they generally are not related to the acquired business' core business performance. As an additional example, we exclude the costs of restructuring programs, which can occur from time to time for our current businesses and/or recently acquired businesses. We exclude the costs in calculating adjusted results to allow us and investors to evaluate the performance of the business based upon its expected ongoing operating structure. We believe the adjusted measures, accompanied by the disclosure of the costs of these programs, provides valuable insight.

Adjusted results should be considered only in conjunction with results reported according to accounting principles generally accepted in the United States. The following tables reconcile our GAAP results to our non-GAAP financial measures:

	Three Months Ended		Six Months Ended	
	July 4, 2021	June 28, 2020	July 4, 2021	June 28, 2020
(In thousands, except percentages)				
GAAP revenues	\$ 601,974	\$ 424,811	\$ 1,138,355	\$ 888,337
Adjustments related to acquisitions	849	—	849	—
Adjusted revenues	\$ 602,823	\$ 424,811	\$ 1,139,204	\$ 888,337
GAAP income from continuing operations	\$ 43,972	\$ 3,173	\$ 72,713	\$ 18,064
Interest expense, net	14,878	14,257	30,389	27,581
Depreciation expense	11,367	10,332	22,927	20,614
Income tax expense	8,552	400	16,432	2,592
Amortization of intangible assets	9,102	16,017	19,049	32,202
Severance, restructuring, and acquisition integration costs (1)	3,040	4,472	8,211	8,091
Adjustments related to acquisitions and divestitures (2)	1,912	105	2,533	125
Amortization of software development intangible assets	607	386	1,296	716
Adjusted EBITDA	\$ 93,430	\$ 49,142	\$ 173,550	\$ 109,985
GAAP income from continuing operations margin	7.3 %	0.7 %	6.4 %	2.0 %
Adjusted EBITDA margin	15.5 %	11.6 %	15.2 %	12.4 %

(1) See Note 12, Severance, Restructuring, and Acquisition Integration Activities, for details.

(2) During the three months ended July 4, 2021, we collected \$0.1 million of receivables associated with the sale of Grass Valley that were previously written off, recognized deferred revenues of \$0.8 million for the purchase accounting effect of recording deferred revenue at fair value for the OTN acquisition, and recognized cost of sales of \$1.2 million related to purchase accounting adjustments of acquired inventory to fair value for the OTN acquisition. During the six months ended July 4, 2021, we reduced the Opterna earn-out liability by \$5.8 million, recognized a \$3.6 million impairment on assets held and used, recognized a \$3.4 million impairment on assets held for sale, collected \$1.5 million of receivables associated with the sale of Grass Valley that were previously written off, recognized cost of sales of \$2.0 million related to purchase accounting adjustments of acquired inventory to fair value for the OTN acquisition, and recognized deferred revenues of \$0.8 million for the purchase accounting effect of recording deferred revenue at fair value for the OTN acquisition. During the three and six months ended June 28, 2020, we recognized cost of sales related to purchase accounting adjustments of acquired inventory to fair value for the SPC acquisition.

Segment Results of Operations

For additional information regarding our segment measures, see Note 6 to the Condensed Consolidated Financial Statements.

Enterprise Solutions

	Three Months Ended		%	Six Months Ended		%
	July 4, 2021	June 28, 2020	Change	July 4, 2021	June 28, 2020	Change
	(In thousands, except percentages)					
Segment Revenues	\$ 267,528	\$ 203,374	31.5 %	\$ 493,883	\$ 415,587	18.8 %
Segment EBITDA	35,269	22,231	58.6 %	63,375	46,943	35.0 %
as a percent of segment revenues	13.2 %	10.9 %		12.8 %	11.3 %	

Enterprise Solutions revenues increased \$64.2 million and \$78.3 million in the three and six months ended July 4, 2021, respectively, from the comparable period of 2020. As compared to the year ago period, for the three months ended July 4, 2021, increases in volume, higher copper prices, and favorable currency translation contributed \$47.3 million, \$13.5 million, and \$3.4 million, respectively. As compared to the year ago period, for the six months ended July 4, 2021, increases in volume, higher copper prices, and favorable currency translation contributed \$48.9 million, \$23.5 million, and \$5.9 million, respectively.

Enterprise Solutions EBITDA increased \$13.0 million and \$16.4 million in the three and six months ended July 4, 2021, respectively, compared to the year ago period primarily as a result of the increase in revenues discussed above.

Industrial Solutions

	Three Months Ended		%	Six Months Ended		%
	July 4, 2021	June 28, 2020	Change	July 4, 2021	June 28, 2020	Change
	(In thousands, except percentages)					
Segment Revenues	\$ 335,295	\$ 221,437	51.4 %	\$ 645,321	\$ 472,750	36.5 %
Segment EBITDA	56,731	26,449	114.5 %	108,094	61,976	74.4 %
as a percent of segment revenues	16.9 %	11.9 %		16.8 %	13.1 %	

Industrial Solutions revenues increased \$113.9 million and \$172.6 million in the three and six months ended July 4, 2021 from the comparable period of 2020. The increase in revenues in the three months ended July 4, 2021 was primarily due to increases in volume, higher copper prices, favorable currency translation, and acquisitions, net of disposals of \$71.3 million, \$23.5 million, \$10.4 million, and \$8.7 million, respectively. The increase in revenues in the six months ended July 4, 2021 was primarily due to increases in volume; higher copper prices; favorable currency translation; and acquisitions, net of disposals of \$105.5 million, \$37.3 million, \$17.0 million, and \$12.8 million, respectively.

Industrial Solutions EBITDA increased \$30.3 million and \$46.1 million in the three and six months ended July 4, 2021 from the comparable period of 2020 primarily as a result of the increase in revenues discussed above, partially offset by an increase in incentive compensation and increased investments in R&D projects as we continue our commitment to growth initiatives.

Liquidity and Capital Resources

Significant factors affecting our cash liquidity include (1) cash from operating activities, (2) disposals of businesses and tangible assets, (3) cash used for acquisitions, restructuring actions, capital expenditures, share repurchases, dividends, and senior subordinated note repurchases, and (4) our available credit facilities and other borrowing arrangements. We expect our operating activities to generate cash in 2021 and believe our sources of liquidity are sufficient to fund current working capital requirements, capital expenditures, contributions to our retirement plans, share repurchases, senior subordinated note repurchases, quarterly dividend payments, and our short-term operating strategies. However, we may require external financing in the event we complete a significant acquisition. Our ability to continue to fund our future needs from business operations could be affected by many factors, including, but not limited to: economic conditions worldwide, customer demand, competitive market forces, customer acceptance of our product mix, and commodities pricing.

The following table is derived from our Condensed Consolidated Cash Flow Statements and includes the results and cash flow activity of Grass Valley for the period ended June 28, 2020 consistent with the Condensed Consolidated Cash Flow Statements:

	Six Months Ended	
	July 4, 2021	June 28, 2020
	(In thousands)	
Net cash provided by (used for):		
Operating activities	\$ 26,654	\$ (12,130)
Investing activities	(94,218)	(38,054)
Financing activities	(10,146)	19,959
Effects of currency exchange rate changes on cash and cash equivalents	(993)	(2,620)
Decrease in cash and cash equivalents	(78,703)	(32,845)
Cash and cash equivalents, beginning of period	501,994	425,885
Cash and cash equivalents, end of period	\$ 423,291	\$ 393,040

Operating cash flows were a source of cash of \$26.7 million in the six months ended July 4, 2021 as compared to a use of cash of \$12.1 million in the six months ended June 28, 2020. Operating cash flow improved \$38.8 million compared to the prior year primarily due to an increase in earnings. In 2021, changes in operating assets and liabilities included an unfavorable change in receivables offset by a favorable change in accounts payable. For the six months ended July 4, 2021, receivables were a use of cash of \$90.8 million compared to a source of cash of \$52.6 million in the year ago period. The increase in receivables was primarily due to the increase in revenues discussed above. In the three months ended July 4, 2021, days sales outstanding improved to 53 days compared to 60 days for the three months ended June 28, 2020. Accounts payable was a source of cash of \$50.2 million in the six months ended July 4, 2021 compared to a use of cash of \$86.4 million in the year ago period.

Net cash used for investing activities totaled \$94.2 million in the six months ended July 4, 2021, compared to \$38.1 million in the prior year. Investing activities for the six months ended July 4, 2021 included capital expenditures of \$30.9 million compared to \$41.7 million in the comparable period of 2020. The six months ended July 4, 2021 also included payments of \$73.7 million primarily for the acquisition of OTN, partially offset by cash receipts of \$10.8 million primarily for the sale of our oil and gas cable business in Brazil.

Net cash from financing activities was a use of cash of \$10.1 million for the six months ended July 4, 2021, compared to a source of cash of \$20.0 million in the prior year. Financing activities for the six months ended July 4, 2021 included cash dividend payments of \$4.5 million, net payments related to share based compensation activities of \$2.0 million, repayments of debt obligations of \$1.8 million assumed as part of the OTN acquisition, and debt issuance costs of \$1.7 million for our Revolver refinancing. Financing activities for the six months ended June 28, 2020 included borrowing on our Revolver of \$190.0 million, payments under borrowing arrangements of \$100.0 million, payments under our share repurchase program of \$35.0 million, a payment of earn-out consideration of which \$29.3 million is classified as a financing activity, cash dividend payments of \$4.6 million, and net payments related to share based compensation activities of \$1.1 million.

Our cash and cash equivalents balance was \$423.3 million as of July 4, 2021. Of this amount, \$174.5 million was held outside of the U.S. in our foreign operations. Substantially all of the foreign cash and cash equivalents are readily convertible into U.S. dollars or other foreign currencies. We consider the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested, and accordingly, no provision for any withholding taxes has been recorded. Upon distribution of those earnings in the form of dividends or otherwise, we may be subject to withholding taxes payable to the respective foreign countries.

Our outstanding debt obligations as of July 4, 2021 consisted of \$1,542.7 million of senior subordinated notes. Additional discussion regarding our various borrowing arrangements is included in Note 13 to the Condensed Consolidated Financial Statements.

Forward-Looking Statements

Statements in this report other than historical facts are “forward-looking statements.” Forward-looking statements include statements regarding future financial performance (including revenues, expenses, earnings, margins, cash flows, dividends, capital expenditures and financial condition), plans and objectives, and related assumptions. These forward-looking statements reflect management’s current beliefs and expectations and are not guarantees of future performance. Actual results may differ materially from those suggested by any forward-looking statements based on a number of factors. These factors include, among others, those set forth in Part II, Item 1A and in other documents that we file with the SEC.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law.

Item 3: Quantitative and Qualitative Disclosures about Market Risks

The following table provides information about our financial instruments that are sensitive to changes in interest rates. The table presents principal amounts by expected maturity dates and fair values as of July 4, 2021.

	Principal Amount by Expected Maturity			Fair Value
	2021	Thereafter	Total	
(In thousands, except interest rates)				
€300.0 million fixed-rate senior subordinated notes due 2025	\$ —	\$ 356,010	\$ 356,010	\$ 358,399
Average interest rate		2.875 %		
€200.0 million fixed-rate senior subordinated notes due 2026	\$ —	\$ 237,340	\$ 237,340	\$ 243,760
Average interest rate		4.125 %		
€450.0 million fixed-rate senior subordinated notes due 2027	\$ —	\$ 534,015	\$ 534,015	\$ 548,903
Average interest rate		3.375 %		
€350.0 million fixed-rate senior subordinated notes due 2028	\$ —	\$ 415,345	\$ 415,345	\$ 432,956
Average interest rate		3.875 %		
Total			\$ 1,542,710	\$ 1,584,018

Item 7A of our 2020 Annual Report on Form 10-K provides information as to the practices and instruments that we use to manage market risks. There were no material changes in our exposure to market risks since December 31, 2020.

Item 4: Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1: Legal Proceedings

On November 24, 2020, the Company announced a data incident involving unauthorized access and copying of some current and former employee data, as well as limited company information regarding some business partners. In January 2021, Anand Edke filed a putative class action lawsuit against the Company in the Circuit Court of Cook County, Illinois, Case No. 2021 CH 47. Jurisdiction for the matter has moved to federal court and the case has been transferred to the U.S. District Court for the Eastern District of Missouri. In February 2021, Kia Mackey filed a separate putative class action lawsuit against the Company in the U.S. District Court for the Eastern District of Missouri, Case No. 4:21-CV-00149. The plaintiffs have each asked for injunctive relief, unspecified damages, and unspecified legal fees. It is premature to estimate the potential exposure to the Company associated with the litigation. The Company intends to vigorously defend the lawsuits.

We are a party to various other legal proceedings and administrative actions that are incidental to our operations. In our opinion, the proceedings and actions in which we are involved should not, individually or in the aggregate, have a material adverse effect on our financial condition, operating results, or cash flows. However, since the trends and outcome of this litigation are inherently uncertain, we cannot give absolute assurance regarding the future resolution of such litigation, or that such litigation may not become material in the future.

Item 1A: Risk Factors

There have been certain updates to our risk factors as previously disclosed in our Form 10-K filed on February 16, 2021. Included below is a complete narrative of our significant risk factors as of July 4, 2021. There may also be additional risks that impact our business that we currently do not recognize as, or that are not currently, material to our business.

The effects of the COVID-19 pandemic materially affected how we and our customers operated our businesses in 2020, and the duration and extent to which this or future epidemics or pandemics will impact our future results of operations and overall financial performance remains uncertain.

In December 2019, a novel coronavirus disease (“COVID-19”) was first reported and on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. The widespread health crisis is adversely affecting the broader economies, financial markets and overall demand environment for many of our products.

Our operations and the operations of our suppliers, channel partners and customers were disrupted to varying degrees by a range of external factors related to the COVID-19 pandemic, some of which are not within our control. Many governments imposed, and may yet impose, a wide range of restrictions on the physical movement of people in order to limit the spread of COVID-19. The COVID-19 pandemic has had, and likely will continue to have, an impact on the attendance and productivity of our employees, and those of our channel partners or customers, resulting in negative impacts to our results of operations and overall financial performance. Additionally, COVID-19 has resulted, and may result in future periods, in delays in non-residential construction, non-crisis-related IT purchases and project completion schedules in general, all of which can negatively impact our results in both current and future periods.

The duration and extent of the impact from the COVID-19 pandemic or any future epidemic or pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus (including variant mutations of the virus), the extent and effectiveness of containment actions, treatments and vaccinations, the effects of measures enacted by policy makers and central banks around the globe, and the impact of these and other factors on our employees, customers, channel partners and suppliers. If we are not able to respond to and manage the impact of such events effectively, our business will be affected.

A challenging global economic environment or a downturn in the markets we serve could adversely affect our operating results and stock price in a material manner.

A challenging global economic environment could cause substantial reductions in our revenue and results of operations as a result of weaker demand by the end users of our products and price erosion. Price erosion may occur through competitors becoming more aggressive in pricing practices. A challenging global economy could also make it difficult for our customers, our vendors, and us to accurately forecast and plan future business activities. Our customers could also face issues gaining timely access to sufficient credit, which could have an adverse effect on our results if such events cause reductions in revenues, delays in collection, or write-offs of receivables. Further, the demand for many of our products is economically sensitive and

will vary with general economic activity, trends in nonresidential construction, investment in manufacturing facilities and automation, demand for information technology equipment, and other economic factors.

Global economic uncertainty could result in a significant decline in the value of foreign currencies relative to the U.S. dollar, which could result in a significant adverse effect on our revenues and results of operations; could make it difficult for our customers and us to accurately forecast and plan future business activities; and could cause our customers to slow or reduce spending on our products and services. Economic uncertainty could also arise from fiscal policy changes in the countries in which we operate.

Changes in foreign currency rates and commodity prices can impact the buying power of our customers. For example, a strengthened U.S. dollar can result in relative price increases for our products for customers outside of the U.S., which can have a negative impact on our revenues and results of operations. Furthermore, customers' ability to invest in capital expenditures, such as our products, can depend upon proceeds from commodities, such as oil and gas markets. A decline in energy prices, therefore, can have a negative impact on our revenues and results of operations.

Cyber security incidents have and could in the future interfere with our business and operations.

Computer hacking, malware, phishing, and spamming attacks against online networking platforms have become more prevalent. Though it is difficult to determine what, if any, harm may directly result from any specific attack or interruption, such events could also be expensive to remedy, harm our reputation or brands, and/or lead users to lose trust and confidence in our business. We, and others on our behalf, also store "personally identifiable information" ("PII") with respect to employees, vendors, customers, and others. While we have implemented safeguards to protect the privacy of this information, it is possible that hackers or others might obtain this information in the future, as occurred in November 2020. Based upon this occurrence or any future occurrence, in addition to having to take potentially costly remedial action, we may also be subject to fines, penalties, lawsuits, and reputational damage.

Furthermore, we rely on our information systems and those of third parties for storing proprietary company information about our products and intellectual property, as well as for processing customer orders, manufacturing and shipping products, billing our customers, tracking inventory, supporting accounting functions and financial statement preparation, paying our employees, and otherwise running our business. In addition, we may need to enhance our information systems to provide additional capabilities and functionality. The implementation of new information systems and enhancements is frequently disruptive to the underlying business of an enterprise. Any disruptions affecting our ability to accurately report our financial performance on a timely basis could adversely affect our business in a number of respects. If we are unable to successfully implement potential future information systems enhancements, our financial position, results of operations, and cash flows could be negatively impacted.

Changes in tax laws may adversely affect our financial position.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Significant judgment is required in determining our global provision for income taxes, deferred tax assets or liabilities and in evaluating our tax positions on a worldwide basis. While we believe our tax positions are consistent with the tax laws in the jurisdictions in which we conduct our business, it is possible that these positions may be contested or overturned by jurisdictional tax authorities, which may have a significant impact on our global provision for income taxes.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. The U.S. recently enacted significant tax reform, and certain provisions of the new law may adversely affect us. In addition, governmental tax authorities are increasingly scrutinizing the tax positions of companies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws. If tax laws and related regulations change, our financial results could be materially impacted. Given the unpredictability of these possible changes and their potential interdependency, it is possible such changes could adversely impact our financial results.

We may experience significant variability in our quarterly and annual effective tax rate which would affect our reported net income.

We have a complex tax profile due to the global nature of our operations, which encompass multiple taxing jurisdictions. Variability in the mix and profitability of domestic and international activities, identification and resolution of various tax uncertainties, changes in tax laws and rates, and the extent to which we are able to realize net operating loss and other carryforwards included in deferred tax assets and avoid potential adverse outcomes included in deferred tax liabilities, among other matters, may significantly affect our effective income tax rate in the future.

Our effective income tax rate is the result of the income tax rates in the various countries in which we do business. Our mix of income and losses in these jurisdictions affects our effective tax rate. For example, relatively more income in higher tax rate jurisdictions would increase our effective tax rate and thus lower our net income. Similarly, if we generate losses in tax jurisdictions for which no benefits are available; our effective income tax rate will increase. Our effective income tax rate may also be impacted by the recognition of discrete income tax items, such as required adjustments to our liabilities for uncertain tax positions or our deferred tax asset valuation allowance. A significant increase in our effective income tax rate could have a material adverse impact on our earnings.

Changes in the price and availability of raw materials we use could be detrimental to our profitability.

Copper is a significant component of the cost of most of our cable products. Over the past few years, and in particular in 2021, the prices of metals, particularly copper, have been volatile. Prices of other materials we use, such as polyvinylchloride (PVC) and other plastics derived from petrochemical feedstocks, have also been volatile. Generally, we have recovered much of the higher cost of raw materials through higher pricing of our finished products. The majority of our products are sold through distribution, and we manage the pricing of these products through published price lists which we update from time to time, with new prices typically taking effect a few weeks after they are announced. Some OEM contracts have provisions for passing through raw material cost changes, generally with a lag of a few weeks to three months. Especially during periods of inflation, if we are unable to raise prices timely and sufficiently to recover our material costs, our earnings and margins could decline. If we raise our prices but competitors raise their prices less, we may lose sales, and our earnings could decline. If the price of copper were to decline, we may be compelled to reduce prices to remain competitive, which could have a negative effect on revenues. While we generally believe the supply of raw materials (copper, plastics, and other materials) is adequate, we have experienced instances of limited supply of certain raw materials, resulting in extended lead times and higher prices. If a supply interruption or shortage of materials were to occur (including due to labor or political disputes), this could have a negative effect on revenues and earnings.

Future operating results depend upon the availability of components in sufficient quantities on commercially reasonable terms.

Because the Company currently obtains certain components from single or limited sources, the Company is subject to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages that could materially adversely affect the Company's financial condition and operating results. While the Company has entered into agreements for the supply of many components, there can be no assurance that the Company will be able to extend or renew these agreements on similar terms, or at all. Component suppliers may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting the Company's ability to obtain sufficient quantities of components on commercially reasonable terms. Health crises, like the Covid-19 pandemic, could lead to quarantines or labor shortages, thus impacting the output of key suppliers. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Similarly, if the Company's customers experience production challenges due to the inability to obtain certain components, this may negatively impact the customers' ordering patterns from the Company.

The global markets in which we operate are highly competitive.

We face competition from other manufacturers for each of our global business platforms and in each of our geographic regions. These companies compete on technical features, quality, availability, price, customer support, and distribution coverage. Some multinational competitors have greater engineering, financial, manufacturing, and marketing resources than we have. Actions that may be taken by competitors, including pricing, business alliances, new product introductions, intellectual property advantages, market penetration, and other actions, could have a negative effect on our revenues and profitability. Moreover, some competitors that are highly leveraged both financially and operationally could become more aggressive in their pricing of products.

Our revenue for any particular period can be difficult to forecast.

Our revenue for any particular period can be difficult to forecast, especially in light of the challenging and inconsistent global macroeconomic environment and related market uncertainty. Our revenue may grow at a slower rate than in past periods or even decline on a year-over-year basis. Changes in market growth rates can have a significant effect on our operating results.

The timing of orders for customer projects can also have a significant effect on our operating results in the period in which the products are shipped and recognized as revenue. The timing of such projects is difficult to predict, and the timing of revenue recognition from such projects may affect period to period changes in revenue. As a result, our operating results could vary materially from quarter to quarter based on the receipt of such orders and their ultimate recognition as revenue. Similarly, we are often informed by our customers well in advance that such customer intends to place an order related to a specific project in a given quarter. Such a customer's timeline for execution of the project, and the resulting purchase order, may be unexpectedly delayed to a future quarter, or cancelled. The frequency of such delays can be difficult to predict. As a result, it is difficult to precisely forecast revenue and operating results for future quarters.

In addition, our revenue can be difficult to forecast due to unexpected changes in the level of our products held as inventory by our channel partners and customers. Our channel partners and customers purchase and hold our products in their inventory in order to meet the service and on-time delivery requirements of their customers. As our channel partners and customers change the level of Belden products owned and held in their inventory, our revenue is impacted. As we are dependent upon our channel partners and customers to provide us with information regarding the amount of our products that they own and hold in their inventory, unexpected changes can occur and impact our revenue forecast.

The presence of substitute products in the marketplace may reduce demand for our products and negatively impact our business.

Fiber optic systems are increasingly substitutable for copper based cable systems. Customers may shift demand to fiber optic systems with greater capabilities than copper based cable systems, leading to a reduction in demand for copper based cable. We may not be able to offset the effects of a reduction in demand for our copper-based cable systems with an increase in demand for our existing fiber optic systems. Further, the supply chain in the fiber market is highly constrained, with a small number of vertically integrated firms controlling critical inputs and the related intellectual property. Similarly, in our non-cable businesses, customers could rapidly shift the methods by which they capture and transmit signals in ways that could lead to decreased demand for our current or future products. These factors, either together or in isolation, may negatively impact revenue and profitability.

The increased prevalence of cloud computing and other disruptive business models may negatively impact certain aspects of our business.

The nature in which many of our products are purchased or used is evolving with the increasing prevalence of cloud computing and other methods of off-premises computing and data storage. This may negatively impact one or more of our businesses in a number of ways, including:

- Consolidation of procurement power leading to the commoditization of IT products;
- Reduction in the demand for infrastructure products previously used to support on-site data centers;
- Lowering barriers to entry for certain markets, leading to new market entrants and enhanced competition; and
- Preferences for software as a service billing and pricing models may reduce demand for non-cloud "packaged" software.

Our future success depends in part on our ability to develop and introduce new products and respond to changes in customer preferences.

Our markets are characterized by the introduction of products with increasing technological capabilities. Our success depends in part on our ability to anticipate and offer products that appeal to the changing needs and preferences of our customers in the various markets we serve. Developing new products and adapting existing products to meet evolving customer expectations requires high levels of innovation, and the development process may be lengthy and costly. If we are not able to timely anticipate, identify, develop and market products that respond to rapidly changing customer preferences, demand for our products could decline.

The relative costs and merits of our solutions could change in the future as various competing technologies address the market opportunities. We believe that our future success will depend in part upon our ability to enhance existing products and to develop and manufacture new products that meet or anticipate technological changes, which will require continued investment in engineering, research and development, capital equipment, marketing, customer service, and technical support. We have long been successful in introducing successive generations of more capable products, but if we were to fail to keep pace with technology or with the products of competitors, we might lose market share and harm our reputation and position as a technology leader in our markets. See the discussion above in Part I, Item 1, under *Research and Development*.

The increased influence of chief information officers and similar high-level executives may negatively impact demand for our products.

As a result of the increasing interconnectivity of a wide variety of systems, chief information officers and similar executives are more heavily involved in operation areas that have not historically been associated with information technology. As a result, CIOs and IT departments are exercising influence over the procurement and purchasing process at the expense of engineers, plant managers and operation personnel that have historically driven demand for many of our products. When making purchasing decisions, CIO's often value interoperability, standardization, cloud-readiness and security over domain expertise and niche application knowledge. As a result of the influences of CIOs and IT departments, we may face increased competition from IT-industry companies that have not traditionally had major presences in the markets in which we operate. Further, the variance in considerations that drive purchasing decisions between CIOs and those with niche application expertise may result in increased competition based on price and a reduction in demand for our products.

Alterations to our product mix and go-to-market strategies designed to respond to the changes in the marketplace presented by cloud computing may be disruptive to our business and lead to increase expenses, which may result in lower revenues and profitability. Further, if a competitor is able to more quickly or efficiently adapt, or if cloud computing results in significantly lower barriers to entry and new competitors enter our markets, demand for our products may be reduced.

We may be unable to achieve our goals related to growth.

In order to meet the goals in our strategic plan, we must execute our Market Delivery System ("MDS") and grow our business, both organically and through acquisitions. We may be unable to achieve our goals due to a failure to identify growth opportunities, such as trends and technological changes in our end markets. The enterprise and industrial end markets we serve may not experience the growth we expect. Further, those markets may be unable to sustain growth on a long-term basis, particularly in emerging markets. If we are unable to achieve our goals related to growth, it could have a material adverse effect on our results of operations, financial position, and cash flows.

We may be unable to implement our strategic plan successfully.

Our strategic plan is designed to continually enhance shareholder value by improving revenues and profitability, reducing costs, and improving working capital management. To achieve these goals, our strategic priorities are reliant on our Belden Business System, which includes continuing deployment of our MDS to capture market share through end-user engagement, channel management, outbound marketing, and careful vertical market selection; improving our recruitment and development of talented associates; developing strong global business platforms; acquiring businesses that fit our strategic plan; and continuing to be a leading Lean company. We have a disciplined process for deploying this strategic plan through our associates. There is a risk that we may not be successful in developing or executing these measures to achieve the expected results for a variety of reasons, including market developments, economic conditions, shortcomings in establishing appropriate action plans, or challenges with executing multiple initiatives simultaneously. For example, our MDS initiative may not succeed or we may lose market share due to challenges in choosing the right products to market or the right customers for these products, integrating

products of acquired companies into our sales and marketing strategy, or strategically bidding against OEM partners. We may fail to identify growth opportunities. We may not be able to acquire businesses that fit our strategic plan on acceptable business terms, and we may not achieve our other strategic priorities.

We may be unable to achieve our strategic priorities in emerging markets.

Emerging markets are a significant focus of our strategic plan. The developing nature of these markets presents a number of risks. We may be unable to attract, develop, and retain appropriate talent to manage our businesses in emerging markets. Deterioration of social, political, labor, or economic conditions in a specific country or region may adversely affect our operations or financial results. Emerging markets may not meet our growth expectations, and we may be unable to maintain such growth or to balance such growth with financial goals and compliance requirements. Among the risks in emerging market countries are bureaucratic intrusions and delays, contract compliance failures, engrained business partners that do not comply with local or U.S. law, such as the Foreign Corrupt Practices Act, fluctuating currencies and interest rates, limitations on the amount and nature of investments, restrictions on permissible forms and structures of investment, unreliable legal and financial infrastructure, regime disruption and political unrest, uncontrolled inflation and commodity prices, fierce local competition by companies with better political connections, and corruption. In addition, the costs of compliance with local laws and regulations in emerging markets may negatively impact our competitive position as compared to locally owned manufacturers.

We must complete acquisitions and divestitures in order to achieve our strategic plan.

In order to meet the goals in our strategic plan, we must complete acquisitions and divestitures. The extent to which appropriate acquisitions are made will affect our overall growth, operating results, financial condition, and cash flows. Our ability to acquire businesses successfully will decline if we are unable to identify appropriate acquisition targets consistent with our strategic plan, the competition among potential buyers increases, the cost of acquiring suitable businesses becomes too expensive, or we lack sufficient sources of capital. As a result, we may be unable to make acquisitions or be forced to pay more or agree to less advantageous acquisition terms for the companies that we would like to acquire.

Additionally, our strategic plan includes the planned divestiture of certain low-margin cable businesses representing up to \$200 million in annual revenues. The inability to find a suitable buyer(s) with acceptable terms could have an adverse effect on our operating results.

We may have difficulty integrating the operations of acquired businesses, which could negatively affect our results of operations and profitability.

We may have difficulty integrating acquired businesses and future acquisitions might not meet our performance expectations. Some of the integration challenges we might face include differences in corporate culture and management styles, additional or conflicting governmental regulations, compliance with the Sarbanes-Oxley Act of 2002, financial reporting that is not in compliance with U.S. generally accepted accounting principles, disparate company policies and practices, customer relationship issues, and retention of key personnel. In addition, management may be required to devote a considerable amount of time to the integration process, which could decrease the amount of time we have to manage the other businesses. We may not be able to integrate operations successfully or cost-effectively, which could have a negative impact on our results of operations or our profitability. The process of integrating operations could also cause some interruption of, or the loss of momentum in, the activities of acquired businesses.

Our results of operations are subject to foreign and domestic political, social, economic, and other uncertainties and are affected by changes in currency exchange rates.

In addition to manufacturing and other operating facilities in the U.S., we have manufacturing and other operating facilities in Brazil, Canada, China, India, Mexico, St. Kitts, and several European countries. We rely on suppliers in many countries, including China. Our foreign operations are subject to economic, social, and political risks inherent in maintaining operations abroad such as economic and political destabilization, land use risks, international conflicts, pandemics and other health-related crises, restrictive actions by foreign governments, and adverse foreign tax laws. In addition to economic and political risk, a risk associated with our European manufacturing operations is the higher relative expense and length of time required to adjust manufacturing employment capacity. We also face political risks in the U.S., including tax or regulatory risks or potential adverse impacts from legislative impasses over, or significant legislative, regulatory or executive changes in fiscal or monetary policy and other foreign and domestic government policies, including, but not limited to, trade policies and import/export policies.

Approximately 45% of our sales are outside the U.S. Other than the U.S. dollar, the principal currencies to which we are exposed through our manufacturing operations, sales, and related cash holdings are the euro, the Canadian dollar, the Hong Kong dollar, the Chinese yuan, the Mexican peso, the Australian dollar, the British pound, and the Brazilian real. Generally, we have revenues and costs in the same currency, thereby reducing our overall currency risk, although any realignment of our manufacturing capacity among our global facilities could alter this balance. When the U.S. dollar strengthens against other currencies, the results of our non-U.S. operations are translated at a lower exchange rate and thus into lower reported revenues and earnings.

Changes in global tariffs and trade agreements may have a negative impact on global economic conditions, markets and our business.

Like most multinational companies, we have supply chains and sales channels that extend beyond national borders. Purchasing and production decisions in some cases are largely influenced by the trade agreements and the tax and tariff structures in place. Disruption in those structures can create significant market uncertainty. While the impact of Brexit and the U.S. and Chinese tariff actions are not currently material to us, unanticipated complications in the free movement of goods in Europe, an escalation of tariff activity anywhere in the world or changes to existing free trade agreements could materially impact our financial results. In addition to the potential direct impacts of free trade restrictions, longer term macroeconomic consequences could result, including slower growth, inflation, higher interest rates and unfavorable impacts to currency exchange rates. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.

Volatility of credit markets could adversely affect our business.

Uncertainty in U.S. and global financial and equity markets could make it more expensive for us to conduct our operations and more difficult for our customers to buy our products. Additionally, market volatility or uncertainty may cause us to be unable to pursue or complete acquisitions. Our ability to implement our business strategy and grow our business, particularly through acquisitions, may depend on our ability to raise capital by selling equity or debt securities or obtaining additional debt financing. Market conditions may prevent us from obtaining financing when we need it or on terms acceptable to us.

Actions of activists could cause us to incur substantial costs, divert management's attention and resources, and have an adverse effect on our business.

From time to time, we may be subject to proposals by activists urging us to take certain actions. If activist activities ensue, our business could be adversely affected because responding and reacting to actions by activists can be costly and time-consuming, disrupt our operations and divert the attention of management and our employees. For example, we may be required to retain the services of various professionals to advise us on activist matters, including legal, financial and communications advisors, the costs of which may negatively impact our future financial results. In addition, perceived uncertainties as to our future direction, strategy or leadership created as a consequence of activist initiatives may result in the loss of potential business opportunities, harm our ability to attract new investors, customers, employees, and joint venture partners, and cause our stock price to experience periods of volatility.

Perceived failure of our signal transmission solutions to provide expected results may result in negative publicity and harm our business and operating results.

Our customers use our signal transmission solutions in a wide variety of IT systems and application environments in order to help reduce security vulnerabilities and demonstrate compliance. Despite our efforts to make clear in our marketing materials and customer agreements the capabilities and limitations of these products, some customers may incorrectly view the deployment of such products in their IT infrastructure as a guarantee that there will be no security incident or policy non-compliance event. As a result, the occurrence of a high profile security incident, or a failure by one of our customers to pass a regulatory compliance IT audit, could result in public and customer perception that our solutions are not effective and harm our business and operating results, even if the occurrence is unrelated to the use of such products or if the failure is the result of actions or inactions on the part of the customer.

Our use of open source software could negatively impact our ability to sell our products and may subject us to unanticipated obligations.

The products, services, or technologies we acquire, license, provide, or develop may incorporate or use open source software. We monitor and restrict our use of open source software in an effort to avoid unintended consequences, such as reciprocal license grants, patent retaliation clauses, and the requirement to license our products at no cost. Nevertheless, we may be subject to unanticipated obligations regarding our products which incorporate or use open source software.

Our revenue and profits would likely decline, at least temporarily, if we were to lose a key distributor.

We rely on several key distributors in marketing our products. Distributors purchase the products of our competitors along with our products. Our largest distributor, WESCO, accounted for approximately 15% of our revenue in 2020 and our top six distributors, including WESCO, accounted for a total of 26% of our revenue in 2020. If we were to lose one of these key distributors, our revenue and profits would likely decline, at least temporarily. Changes in the inventory levels of our products owned and held by our distributors can result in significant variability in our revenues. Further, certain distributors are allowed to return certain inventory in exchange for an order of equal or greater value. We have recorded reserves for the estimated impact of these inventory policies.

Consolidation of our distributors could adversely impact our revenues and earnings. It could also result in consolidation of distributor inventory, which would temporarily depress our revenues. We have also experienced financial failure of distributors from time to time, resulting in our inability to collect accounts receivable in full. A global economic downturn could cause financial difficulties (including bankruptcy) for our distributors and other customers, which would adversely affect our results of operations.

If we are unable to retain key employees, our business operations could be adversely affected.

The loss of any of key employees could have an adverse effect on us. We may not be able to find qualified replacements for these individuals and the integration of potential replacements may be disruptive to our business. More broadly, a key determinant of our success is our ability to attract, develop, and retain talented associates. While this is one of our strategic priorities, we may not be able to succeed in this regard.

We might have difficulty protecting our intellectual property from use by competitors, or competitors might accuse us of violating their intellectual property rights.

Disagreements about patents and other intellectual property rights occur in the markets we serve. Third parties have asserted and may in the future assert claims of infringement of intellectual property rights against us or against our customers or channel partners for which we may be liable. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from distributing certain products or performing certain services. We may encounter difficulty enforcing our own intellectual property rights against third parties, which could result in price erosion or loss of market share.

We are subject to laws and regulations worldwide, changes to which could increase our costs and individually or in the aggregate adversely affect our business.

We are subject to laws and regulations affecting our domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect our activities including, but not limited to, in areas of labor, advertising, real estate, billing, e-commerce, promotions, quality of services, property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health and safety.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make our products and services less attractive to our customers, delay the introduction of new products in one or more regions, or cause us to change or limit our business practices. We have implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations or our policies and procedures.

Specifically with respect to data privacy, new data protection regulations have been adopted or are being considered for most of the developed world. Most notable are the European Commission's adoption of the General Data Protection Regulation (GDPR), which became effective in May 2018 and the California Consumer Privacy Act (CCPA), which became law on January 1, 2020. The GDPR and CCPA include operational requirements for companies that receive or process personal data of residents of their respective jurisdictions and include significant penalties for non-compliance. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

If our goodwill or other intangible assets become impaired, we would be required to recognize charges that would reduce our income.

Under accounting principles generally accepted in the U.S., goodwill and certain other intangible assets are not amortized but must be reviewed for possible impairment annually or more often in certain circumstances if events indicate that the asset values may not be recoverable. We have incurred significant charges for the impairment of goodwill and other intangible assets in the past, and we may be required to do so again in future periods if the underlying value of our business declines. Such a charge would reduce our income without any change to our underlying cash flows.

Some of our employees are members of collective bargaining groups, and we might be subject to labor actions that would interrupt our business.

Some of our employees, primarily outside the U.S., are members of collective bargaining groups. We believe that our relations with employees are generally good. However, if there were a dispute with one of these bargaining groups, the affected operations could be interrupted, resulting in lost revenues, lost profit contribution, and customer dissatisfaction.

Item 6: Exhibits

Exhibits

Exhibit 31.1	<u>Certificate of the Chief Executive Officer pursuant to § 302 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 31.2	<u>Certificate of the Chief Financial Officer pursuant to § 302 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 32.1	<u>Certificate of the Chief Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 32.2	<u>Certificate of the Chief Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002.</u>
Exhibit 101.SCH	Schema Document
Exhibit 101.CAL	Calculation Linkbase Document
Exhibit 101.DEF	Definition Linkbase Document
Exhibit 101.LAB	Labels Linkbase Document
Exhibit 101.PRE	Presentation Linkbase Document

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BELDEN INC.

Date:	August 9, 2021	By:	<u>/s/ Roel Vestjens</u> Roel Vestjens President and Chief Executive Officer
Date:	August 9, 2021	By:	<u>/s/ Jeremy Parks</u> Jeremy Parks Senior Vice President, Finance, and Chief Financial Officer
Date:	August 9, 2021	By:	<u>/s/ Douglas R. Zink</u> Douglas R. Zink Vice President and Chief Accounting Officer

**CERTIFICATE PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Roel Vestjens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Belden Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which the statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 9, 2021

/s/ Roel Vestjens

Roel Vestjens

President and Chief Executive Officer

**CERTIFICATE PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Jeremy Parks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Belden Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which the statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 9, 2021

/s/ Jeremy Parks

Jeremy Parks
Senior Vice President, Finance, and Chief Financial Officer

**CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Belden Inc. (the “Company”) on Form 10-Q for the period ended July 4, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Roel Vestjens, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Roel Vestjens

Roel Vestjens
President and Chief Executive Officer
August 9, 2021

**CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Belden Inc. (the “Company”) on Form 10-Q for the period ended July 4, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeremy Parks, Senior Vice President, Finance, and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeremy Parks

Jeremy Parks

Senior Vice President, Finance, and Chief Financial Officer

August 9, 2021