Preliminary Fundamental Research
Commscope Inc. (NYSE:CTV)

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The first step in our research process is the identification of anomalous insider trading behavior. If found, we then perform a review of financial statements and accounting policies to see if management may be attempting to disguise underlying financial or operating problems, and we will also look at governance practices, to see if they inappropriately benefit the incumbent executives. At the same time, we may perform fundamental analysis with an eye toward identifying overlooked or under appreciated fundamental challenges that may provide an explanation for the unusual or self-serving trading, accounting and/or governance behaviors we have observed. The combination of all these items is the basis for a Full Report which outlines our investment thesis.

Preliminary Fundamental Research summarizes our initial fundamental observations for the subject company that may also include some financial statement analysis. The publication of this report does not necessarily mean a Full Report will be published; but it does contain information that some clients will find useful.

Business Description

Commscope Inc., together with its subsidiaries, provides infrastructure solutions for communication networks worldwide. It operates in three segments: Enterprise, Broadband, and Carrier. The Enterprise segment provides structured cabling systems that connect voice and data communication devices, video and building automation devices, switching equipment, and other information-management systems to one another, as well as to outside communications networks for business enterprise applications. The Broadband segment designs, manufactures, and markets coaxial and fiber optic cable, and supporting apparatus for cable television and other video applications. The Carrier segment consists of secure environmental enclosures for electronic devices and equipment, and cables and components used by wireless providers to connect antennae to transmitters. Commscope was founded in 1997 and is headquartered in Hickory, North Carolina.

Key Statistics

Sector:	Last Close:	Market Cap:	Avg Vol (3m):
Technology	**$51.18**	**$3.57B**	**1,128,660**
Industry:	52 Wk Range:	Trailing P/E:	Shrs Out:
Communication Equip.	**$33.75-$63.51**	**24.98**	**69.84M**
F/T Employees:	FYE:	Forward P/E:	Short % of Float:
15,500	**31-Dec**	**12.39**	**11.4%**

Summary of Preliminary Fundamental Research for CTV

- On 12/27/07, CTV closed on the acquisition of Andrew Corporation, a relatively large deal designed "to expand our global leadership in infrastructure solutions for communications networks." In the cash and stock transaction, the Company took on $2.1 billion in debt, dramatically increasing interest expense which may go up more if interest rates rise, especially since its debt had been downgraded in June, 2007.

- The Andrew deal seems to have a number of other unexpected features and/or consequences, including a negative impact on margins, increasing warranty claims, and the potential for additional, significant acquisition related charges and an overall weakening of the Company's balance sheet.

- Simultaneously, the Company is impacted by increasing raw material costs and a weakening macroeconomic environment as well as significant competition globally.

- All of the above have the potential to create significant cash flow and liquidity problems for the Company and that may lead to the need for additional debt or equity financing.

- The Company also inherited a legal problem with Andrew where it is exposed to a potentially significant patent infringement and failure to pay royalties risks.

Summary of Initial Insider Trading Findings

- Five CTV executives entered into 10b5-1 sales plans on March 7th, one week after the Company issued 4Q07 earnings of $0.51 that missed analysts' expectations by $0.02. At the time the issue traded at a new 52-week low. The simultaneous filing of new 10b5-1 plans, at new lows and involving a significant percentage of the actionable holdings of some of the insiders involved, is unusual behavior and what initially caught our attention (see Figure 1 below).

- The sales plans called for the monetization of currently exercisable options as well as performance shares scheduled to vest in December 2008. Below are the expected holdings reductions should the insiders sell all shares allotted under the plans:

Officer	Position	Expected Reduction
James Hughes	EVP of Broadband Sales & Marketing	100%
Christopher Story	EVP of Coaxial Cable and Antenna Ops	70%
Brian Garrett	President, COO	60%
William Gooden	SVP, Controller	40%
Frank Wyatt	SVP, General Counsel	20%

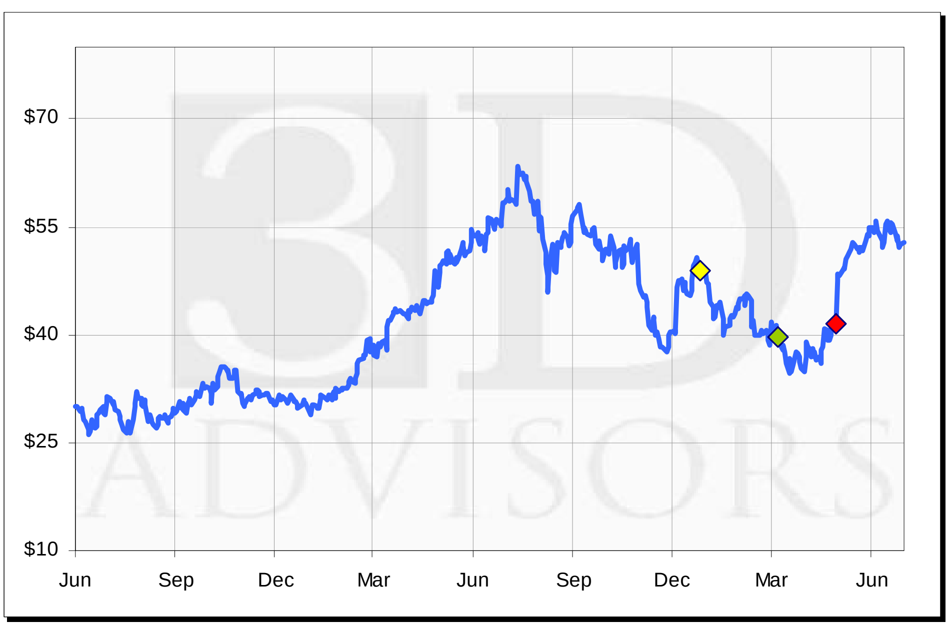
- EVP **James Hughes** and President, COO **Brian Garrett** commenced their sales in April, with Garrett monetizing 31,000 options not set to expire until December 2009 for pre-tax profits as narrow as 4%. SVP **William Gooden** and General Counsel **Frank Wyatt** would commence their plan sales later in May and thus far have collectively sold just 7,400 shares.

- On May 16th, two weeks after the Company issued 1Q07 earnings that beat the consensus estimate by 47%, Chairman, CEO **Frank Drendel** and Executive V.P., CFO **Jearld Leonhardt** adopted 10b5-1 plans of their own. Drendel and Leonhardt will reportedly sell 176,300 and 61,200, respectively, of currently actionable options in addition to 67,800 and 14,700 performance shares scheduled to vest in December. These plans cover 13% and 26% of their respective current ownership.

- On June 16th Drendel commenced his trading, disposing of 34,076 shares (roughly 20% of the plan shares) while Leonhardt sold 7,650 shares, or 13% of the shares he has reserved under his sales plan.

- So far, six of the seven CTV insiders who entered into a plan since March 7th have commenced their plan activity. Only EVP **Christopher Story** is yet to sell. In total, there have been 198,646 shares sold, which equates to 36% of the total already owned shares/options reserved under the seven 10b5-1 plans. We continue to monitor the trading behavior of executives closely, especially for any significant acceleration of selling and holdings reductions under the above trading plans.

Figure 1. CTV Daily Closing Price, 06/01/06 through 06/29/08. Yellow diamond is the date of the Andrew acquisition; Green diamond is the date that 5 insiders entered into 10b5-1 trading plans; Red diamond is the date of 1Q08 earnings. Source: Reuters and CTV SEC Filings.



Discussion of Preliminary Fundamental Research for CTV

Andrew Corp. acquisition

On 12/27/07, CTV completed the acquisition of Andrew Corp. The acquisition has allowed CTV to become, as the 2007 SEC Form 10-K says, a global leader in providing radio frequency subsystem solutions for wireless networks. CTV paid approximately $2.3 billion in cash and 5.1 million shares of CTV common stock worth $255 million. The cash portion of the acquisition was funded with $2.1 billion in debt.

The 10-K discloses that revisions to the preliminary purchase price allocation have already taken place which [bolding is ours] "reflect new information received during the three months ended March 31, 2008. Such information included the determination that certain foreign earnings will be remitted to the U.S., **warranty exposure from certain products exhibiting performance issues**, asset valuations related to assets that were either sold or subject to sales agreements, updated information in support of identifiable intangible asset valuations and initial restructuring plans that were put into place. As additional information is obtained regarding these and other matters, **there may be further adjustments to the preliminary purchase price allocation**."

In addition, as part of the acquisition CTV took a $52.8 million purchase accounting inventory adjustment charge, which negatively impacted gross profit in1Q08.

On 01/31/08, CTV sold the Satellite Communications (SatCom) product line, which was acquired as part of the Andrew acquisition, to ASC Signal Corporation. CTV received $8.5 million in cash, $2.5 million in notes receivable due 04/30/10, a 17.6% ownership interest in ASC and the potential for an additional $25 million if certain targets are met over a three year period from the date of the divestiture. No gain or loss was recorded on the sale. On 03/26/08, CTV also sold the minority interest in Andes Industries, which also had been acquired as part of the Andrew acquisition and again no gain or loss was recognized on the disposal.

Segment revenue and operating margins

Prior to 2008, CTV derived its revenues from three operating segments, Enterprise (46.5% of total 2007 sales), Broadband (32.4%) and Carrier (21.1%). As mentioned above, CTV acquired Andrew in December of 2007 and has since reorganized into four reporting segments as follows, Antenna, Cable & Cabinets Group (consists of legacy Andrew products as well as CTV's Carrier segment and was 47.7% of 1Q08 total sales), Enterprise (21%), Broadband (13.5%) and Wireless Network Solutions (a new business acquired through Andrew accounting for 18% of sales). With the acquisition of Andrew there seems to be a lot of moving parts to the revenue and operating margin assumptions. Below we provide an overview of the business in two steps. First, we offer a brief description of each of the businesses. Second, we present a perspective of where CTV stood before the acquisition combined with what obstacles they seem to be currently facing. These obstacles include a macroeconomic slowdown, raw material price increases, non-performing assets acquired from Andrew (although not clearly defined), foreign exchange impacts, restructuring costs, and potentially rising interest rates.

The brief business descriptions are as follows:

- **ACCG (Antenna, Cables and Cabinets Group):** Primarily passive transmission devices for the wireless infrastructure market including base station antennas, coaxial cable and connectors and microwave antennas and secure environmental enclosures for electronic devices used by wireline and wireless telecommunications providers.

- **Enterprise:** Structured cabling systems for business enterprise applications and connectivity solutions for wired and wireless networks within organizations

- **Broadband:** Coaxial cable, fiber optic cable and conduit for cable television system operators. These products support multi-channel video, voice and high-speed data services for residential and commercial customers using Hybrid Fiber Coaxial architecture. This segment is most exposed to the residential housing market.

- **WNS (Wireless Network Solutions):** A variety of active electronic devices and services including power amplifiers filters and tower mounted amplifiers, geolocation products, network optimization analysis systems and engineering and consulting services as well as products that are used to extend and enhance coverage of wireless networks.

Prior to the acquisition of Andrew it is interesting to note that the Carrier segment had been the driving force behind CTV's total sales growth. Although the segment accounted for only 16.2% of total sales in 2005, the Carrier division has since then produced annual sequential revenue growth of 26 to 49% in every period except the 3Q and 4Q of 2007. The Enterprise division was also a major contributor to sales and accounted for nearly 50% of total revenues in 2005, with operating margins consistently in the mid to high teens. However, with the Andrew acquisition, the Enterprise segment now accounts for only 21% of total sales and the Carrier segment has been folded into a new segment called Antenna, Cable and Cabinets Group (ACCG). If one takes a close look at the revenue contribution and the operating margins for each division, a very obvious question comes to mind: What does the Andrew acquisition really bring to the table?

On the surface, one can clearly see through the consolidated sales growth that a doubling of revenues has occurred. In fact, in 1Q08 $668.2 million in sales were acquired from Andrew, with $8.6 million of those sales sold via the SatCom divestiture, bringing total sales to $1.05 billion. However, the remaining businesses, ACCG and WNS, bring little in the form of operating income to the table. In fact, the 1Q08 results show that the ACCG segment generated an operating margin of only 4.3%, while the WNS segment generated a sizable loss. As a result of the Andrew acquisition, CTV now has 47.7% of its revenues generating an operating margin of 4.3% and another 18% of its revenues producing a loss. In fact the two new operating segments combined generated a net loss of $11.5 million in 1Q08. The ACCG segment delivered an operating profit of $20.4 million; however, the WNS segment erased all of those profits with its $31.9 million loss. The ACCG segment did have the impact of stepping up inventory to its fair value following the Andrew acquisition and intangible asset amortization expense, however, the operating margin from one year ago (on a pro forma basis) is still significantly less than what the Carrier segment was generating on its own.

Looking at the end of fiscal 2007, one can see that the Enterprise segment, which accounted for 47% of total revenues, generated an operating margin of 16.8%, and the Carrier segment, which accounted for 21% of 2007 sales, posted a margin 15.7%.

This is in stark contrast to where CTV stands now, only one quarter later. In fact, given that the Carrier segment is now part of ACCG, one wonders how much of the operating profit generated from the new ACCG segment is actually from the Carrier business. It is interesting to note that in the 2007 SEC Form 10-K, in the description of the Carrier business we learn that “the sales of Carrier products can be volatile since customer spending is mainly project-driven. While we remain optimistic about our opportunities for the ICS (integrated cabinet solutions) product groups, we expect increased competition and price pressure.” Then later, “Our ability to meet increased customer demand for ICS products will depend on whether we have sufficient production capacity through our internal operations and contract manufacturers, among other factors.” There is no mention of capacity issues in the 1Q08 SEC Form 10-Q or on any of the conference calls. During the 4Q07 conference call, management did indicate that the Carrier division was expecting to go through a product mix transition whereby next generation products yielded lower price points but yet an upward movement in units sold. Nevertheless, going forward it will be difficult to gain any granularity on this development since the Carrier business is now part of ACCG. In fact, the mention of “volatile customer spending” and “sufficient production capacity” in the 2007 SEC Form 10-K leads one to believe this new division may be full of hidden surprises that the outsider may not necessarily have insight to.

Additional profitability issues may continue in the WNS division. One analyst asks about the profitability of the WNS business on the 1Q08 conference call. Management vaguely claims that it is now breakeven excluding the adjustments. However, we found it curious that in this brief exchange the CFO passes the question on to the investor relations VP:

> **Analyst:** Okay, and you gave us a breakout on operating income, and the WNS business on a GAAP basis was pretty lousy, obviously that’s an area that you guys are working on – maybe if we could talk a little bit about, is there some way to break out what the pro forma operating margin was for WNS?
>
> **Jearld Leonhardt, CFO:** Yes, I think we can help you a little bit there. Go ahead, Phil. Phil’s got some information.
>
> **Phil Armstrong, VP Investor Relations:** Yes, yes don’t forget, we did have both WNS and ACCG had significant FAS 141 adjustments, as well as intangible amortization. So there was significant improvement year-over-year.

We also learn in the 1Q08 SEC Form 10-Q that the gross profit margins of Andrew were historically lower than those of CTV. In fact, in the 1Q08 10-Q CTV shows pro forma results for 1Q07, that is, CTV as if it had acquired Andrew one year ago. The operating margin disclosed is a mere 7.7% versus CTV’s actual operating margin from the 1Q07 of 14.6%. Furthermore, CTV also states that research and development costs are higher as a “higher level of R&D spending is required to support the Andrew products, particularly those in the WNS segment.” **We note with interest that a higher level of spending is required to support a product line that lost $31.9 million in the 1Q08.**

It is also interesting to note that CTV seems to have been facing a sequential decline in revenue growth since the 3Q07 for nearly every segment. This fact again causes one to wonder why the Andrew acquisition was pursued. Is it all about revenue growth? Chairman Frank Drendel said on the 4Q conference call that that it was not just about the top line. “The advantage we have is the scaled depth and worldwide position in procurement to modulate these as best as anyone can, and to work through it, and to get the price increases on an orderly schedule as well as anyone. I feel comfortable that we are not going to be disadvantaged in this environment. I think you should concentrate on the operating income, as much as on the sales part of it.” However, the first quarter operating income was nothing to smile about, and it does not seem as if the second quarter will be much better (see table on operating margins below).

Revenues from the Broadband segment did decline by 11% in the 1Q08 largely due to the general slowdown in economic conditions and in particular the slowdown in the residential housing market. Interestingly, on the 3Q conference call, the expectation was that the demand for bandwidth and competition would remain the primary drivers of the broadband spending in the U.S. and that the international business would have made up for any slow down in the U.S. housing market. The results for 1Q08 indicate that that clearly has not happened. Furthermore, raw material price increases have affected this segment as well as the rest of CTV’s businesses. One can only hope that once the acquisition costs are behind CTV, that the negative impact of the current economic slow down and rising raw material costs does not continue to outweigh the benefits of the acquisition.

Sequential Rev Growth (%)	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08
ACCG[1]	--	--	--	--	--	--	--	423.5%[3]
Enterprise	12.7%	21.1%	7.2%	19.2%	0.42%	-9.0%	12.1%	-3.3%
Broadband	8.7%	19.7%	2.8%	10.3%	-1.3%	-1.3%	13.7%	-11.2%
Carrier[2]	51.5%	25.6%	39.6%	34.0%	-3.8%	-18.5%	49.2%	--
WNS [1]	--	--	--	--	--	--	--	New Segment
Total Sales Growth	16.0%	21.4%	10.6%	19.2%	-1.1%	-9.9%	18.9%	117.3%[3]

[1] New reporting segment due to the acquisition of Andrew on 12/27/07; primarily legacy Andrew products.
[2] Following the acquisition of Andrew, the Carrier segment was folded into ACCG.

[3] Reflects the acquisition of Andrew.

Pricing issues and material costs

Furthermore, pricing issues and raw material costs are certainly having an impact on CTV. Throughout the 1Q08 conference call, the question of pricing was asked over and over. In fact, there were five separate questions asked about pricing. CTV is implementing price increases that they expect will have a full impact in the second half of the year. The price increases have primarily been in response to increasing raw material costs. These two exchanges sum it up best. The first exchange really is about foreign exchange impacts, but Brian Garrett, COO seems to slip and "admit" the real weak spot.

> **Analyst:** Got it. And I was just curious, what currencies are you most sensitive to?
>
> **Brian Garrett, President, COO:** Price and raw materials.
>
> **Jearld Leonhardt, CFO:** Well, outside the U.S., it would certainly be the Euro. It would be the next most significant currency that we would be influenced by.

This second brief exchange seems to also tell it like it is.

> **Analyst:** That relates to just trying to put your pricing initiatives into context. Are we pricing to recoup our raw materials? Are we pricing to try to get ahead of the curve?
>
> **Brian Garrett, President and COO:** Well, we don't necessarily anticipate further commodities costs, but what we do attempt to do is to recover margin.

Interestingly, here Garrett states that they don't anticipate further commodities costs and yet earlier in the call, again in a conversation about pricing, he himself says, "Aluminum prices have not slowed down. Crude oil has not slowed down from the time that we first contemplated the launches of these price increases. So there's still, there's still caution in the wind." A comment regarding the fact that raw materials cost have not slowed down seems to in fact implicate further commodity price increases. Needless to say, margins are under pressure and management seems nervous about the situation.

Andrew non-performing assets, operating margins and competitors

On the 4Q07 conference call, several analysts questioned management about the non-performing assets of Andrew. Jearld Leonhardt, CFO says, "Let's start with the assumption these are good businesses with unique models, and their opportunity, a very unique technology, covered by all kinds of intellectual property. So at the beginning we will hope that we can turn a lot of these in to successful businesses." However, with management looking to step up the sale of its own stock, it may be a signal that these "unique" models are not so successful and that CTV is not out of the woods just yet.

In fact, on the 1Q08 conference call, when asked about the magnitude of the drop in margins for the Broadband segment, management used a very telling phrase, "train wreck." Garrett seems to say that the environment will change in the 2Q08, but it is hard to believe that the effects of a poor macroeconomic environment, rising commodities and poor mix can change in a single quarter.

Analyst: Okay, thought I would ask. And then just one final question, I was a little surprised with just the magnitude of the drop in your operating margins in the broadband segment, given that sales are down only, whatever, 8.5% year-over-year. Just wondering, maybe if you could just shed a little more light in terms of the puts and takes that sort of drove the dramatic drop, and then, how should we think about where you think operating margins sort of stabilized for that market as we exit the year.

Brian Garrett, President and COO: Well, three things happened in the quarter. The train wreck in Q1 really started in the fourth quarter. If you go back and look at our book to bill it was 0.86, which was rather extraordinary for us, and I think in other conversations we've had, we said January was just a very, very tough month starting the year. Not just for broadband, but for a number of our business segments. So the result of that was, was a big volume impact, which had its damages on absorption and margin. I guess the good news is, and the continuation of that theme is, throughout the quarter we saw a growing response in orders and ended up the quarter with a book to bill of nearly 1.2. I think it was 1.9, which sets us up well for Q2 recovery in volume. The other thing that's happening is, is a mix shift, and in the quarter, in the current environment, particularly as it relates to North America, there is less new build activity. We've characterized it largely as maintenance and Frank often talks about the defensive nature between the competition of broadband and the traditional wire line carriers. The result of that is a high mix of drop wire and lower mix of higher margin trunk and distribution products. So that had an impact in the quarter. And then and then the other piece, of course, it was cost. I mean commodities ran strongly in the quarter, did not have the benefit of recovering any costs in the quarter, and you put the three of them together for broadband in the Q, it was a tough period for us. But I will say all three of those changed in nature, and I'll say positively, over the course of the second quarter.

Here is a look at CTV's operating margins since 2005:

Operating Margins (%)	2005	2006	1Q07[3]	2Q07	3Q07	2007	1Q08
ACCG[1]	--	--	9.4%	--	--	--	4.3%
Enterprise	5.1%	12.0%	14.7%	20.0%	17.7%	16.8%	17.0%
Broadband	10.4%	6.2%	14.6%	12.4%	10.6%	11.4%	2.5%
Carrier[2]	-3.2%	10.4%	--	15.7%	19.5%	15.7%	--
WNS1	--	--	-8.7%	--	--	--	-17.7%
Total	5.6%	9.8%	7.7%	16.6%	15.8%	14.8%	2.8%

[1] Acquired from Andrew on December 27, 2007

[2] Following the acquisition of Andrew, the Carrier segment was folded into ACCG.
[3] The 1Q07 margin numbers are pro forma numbers and show what the margins would have been had Andrews been acquired in that period.

We are also including a table comparing CTV's operating margins to those of its competitors, noting that a direct competitor is difficult to find. However, what is clear to see is that CTV has a long way to go in its wireless segment when one looks at the operating margins of Qualcomm and even middle of the road Agilent. In addition, it seems odd that the slowdown in residential housing has not seemed to impact Broadband competitor Amphenol. However, if one looks at what seems to be CTV's most direct competitor, ADC Telecommunications, CTV seems to have faired relatively well excluding the 1Q08.

Operating Margins for CTV Peer Group	**2005**	**2006**	**2007**	**1Q08**
Commscope Inc. (CTV)	5.6%	9.8%	14.8%	2.8%
Amphenol (APH) – *competes with CTV's Broadband Segment*	19%	17.2%	19.4%	19.5%
ADC Telecommunications (ADCT) – *competes with CTV's Enterprise, Carrier and Wireless Segments*	6.2%	3.6%	5.1%	5.4%
Agilent Technologies Inc. (A) – *competes with CTV's Wireless Segment*	3.5%	9.3%	10.8%	9.6%
Alcatel-Lucent (ALU) – *competes with CTV's Carrier Segment*	9.1%	5.6%	**Loss**	**Loss**
Qualcomm (QCOM) – *competes with CTV's Wireless Segment*	42.1%	35.7%	32.5%	31.2%

Returning to CTV's operating results, it should also be noted that foreign exchange has also impacted CTV. As mentioned in one of the exchanges above, one analyst was trying to get a feel for the degree of impact from currency. In fact, in the opening comments to the 1Q08 conference call, management does imply that there was a $31 million benefit to sales from foreign exchange. Management response again implies that the negative impact will not go away any time soon. In fact, following the Andrew acquisition 49.8% of revenues now come from international markets.

Analyst: A few questions. First, I think you talked about a $31 million FX benefit to sales in the quarter. I was just wondering if you saw any benefit on the gross margin or the operating income line from foreign exchange movements?

Jearld Leonhardt, CFO: Well, we had some puts and takes. I would not describe that as overall beneficial. I think what we saw in terms of the benefit on the sales line, you know, if you translate that to COGS, there would be a pretty significant hit there because we are, most of our foreign sourced revenues are actually produced outside the U.S. and for that matter would have a negative foreign exchange impact from a cost of operations, in the current environment.

As such, the question then becomes: Will the combined effect of rising commodities, a weak macroeconomic picture, foreign exchange impacts, high interest expenses and potentially rising restructuring costs (see below), all be significant enough to deteriorate CTV's financial health? There was a significant drain on cash flow in the first quarter, primarily acquisition related, but the cushion seems to be dwindling.

On a side note, CTV's top ten customers account for more than 50% of total revenues. Of those top ten customers, two, Anixter and Alcatel-Lucent, accounted for 24% of total sales in the 1Q08. However, it is interesting to note that throughout 2007, Anixter accounted for between 25-30% of total sales in every quarter. It was not until the 1Q08 that Anixter's contribution fell to 12%. There is no additional disclosure in the 1Q08 SEC Form 10-Q, nor is there any mention of CTV in Anixter's financials. However, sales to Anixter do primarily come from the Enterprise segment and the decline is most likely attributable to the Andrew acquisition and the fact that the Enterprise segment is now a smaller contributor to total revenues. The legacy Andrew business had 50% of its revenues accounted for by ten customers with Nokia Siemens Networks and Ericsson accounting for 10% and 12%, respectively.

Restructuring costs

CTV has been implementing a restructuring plan since 2005. In fact, the bulk of the restructuring was executed in 2005 with $38.6 million in charges taken. In 2006 that amount declined to $12.6 million and to only $1.0 million in 2007. Although the global restructuring initiatives seem to be behind CTV, we did notice in the 1Q08 SEC Form 10-Q that an additional $0.4 million in restructuring charges were taken related "to initial restructuring actions as further actions are considered at one of the Company's European manufacturing facilities." The amount is certainly minimal; however, we are curious about the use of the words "further actions." Does this imply that the initial round of restructuring is not yet over? Certainly there will be additional restructuring following the Andrew acquisition, but this statement doesn't seem to relate to that portion of the restructuring.

In addition, the 1Q08 SEC Form 10-Q also provides this disclosure [bolding is ours]:

> We anticipate that there will be additional restructuring charges recognized and additions to the liability for restructuring activities through **further adjustments** to the allocation of the Andrew purchase price during 2008. We have announced the planned closing of a legacy Commscope manufacturing facility in Brazil which is expected to result in restructuring charges during the second and third quarters of 2008. **The level of such charges has not been determined. Additional restructuring initiatives related to the Andrew integration are expected and the**

resulting charges or additions to the liability for restructuring activities as adjustments to the preliminary allocation of the Andrew purchase price could be material.

Given the number of times that the 10-Q uses such phrases as “further actions” and “further adjustments”, one gets the very strong feeling that significant charges may be coming later in 2008. In fact, during the 1Q08 conference call, CFO Jearld Leonhardt says, “And we will have some large, larger restructuring costs than we experienced in the first quarter coming in later quarters, likely the second quarter concerning those activities.” Needless to say, this type of language brings back to mind the planned disposal of stock by management.

Product warranties

CTV does offer product warranties over periods ranging from one to twenty-five years. The claims paid on warranties have been relatively minimal throughout the course of 2007, however, with the Andrew acquisition, there seems to have been a significant increase, especially in 1Q08. According to the most recent 10-Q, in 1Q08 CTV “recorded an addition to the product warranty accrual as an adjustment to the Andrew preliminary purchase price allocation as a result of additional information obtained regarding warranty exposure on certain products sold prior to Commscope’s acquisition of Andrew.”

	1Q07	2Q07	3Q07	2007	1Q08
Provision for warranty claims	$0.014m	$1.83m	$1.09m	$3.75m	$3.87m
Acquisition of Andrew	-	-	-	$24.68	-
Revision of Andrew preliminary purchase price allocation	-	-	-	-	$9.38m
Less: Warranty settlements	$0.001m	-$0.2m	-$0.3m	-$1.34m	-$8.56m

In fact, a comparison of the product warranty accrual account in 1Q08 versus the 1Q07 shows a significant increase. The notes in the 10-Q indicate that the beginning balance and activity within the accounts are due to legacy Andrew products. We are curious to know more detail concerning what these legacy products are and why there have been so many settlements. In the 1Q08 10-Q, the description of the acquisition of Andrew does state that in the first quarter of 2008, it was discovered that there were **“certain products exhibiting performance issues.”** In the 1Q07 there was only $0.001 million (or $1,000) worth of warranty settlements whereas in the 1Q08, settlements related to Andrew legacy products totaled $8.5 million. In addition, CTV made a $9.4 million revision to Andrew’s preliminary purchase price allocation. One wonders whether these “certain products exhibiting performance issues” will continue to experience an increase in warranty claims. Clearly it is an item that is worth keeping an eye on. The table above shows the accounts in detail (note: product warranties are buried within other current accrued liabilities).

Cash flows

Looking at the cash flow statement one can see a significant drain on CTV's cash and equivalents in 1Q08. Operating cash flow generated $80 million in cash, but this is really only after the impact of non-cash adjustments and adjustments in inventories and accounts receivable (these two accounts became generators of cash in the 1Q08 versus consumers in every other period) helped to eliminate the negative net income of $11 million.

In addition, the 1Q08 saw an outflow of $58m due to the closing of the Andrew acquisition (the remaining unpaid purchase price), but what gives us pause is the fact that nearly all of the holders of the 3.25% convertible senior subordinated debentures assumed in the Andrew acquisition chose to convert their debentures. As a result, $207.5 million in cash was paid out in 1Q08. As a combined result of these items, CTV's cash and equivalents position was reduced by nearly $200 million from $649.5 million to $459.3 million. Going forward CTV still needs to consider an increase in capital expenditures due to the acquisition (expectations are $80-$90 million for 2008 versus $28 million in 2007), an increase in research and development, significantly higher interest expense charges (nearly $150 million in 2008) and payments on its $2.08 billion debt position.

In addition, CTV still owes $2 million to Signal Vision (part of its acquisition agreement). Furthermore, on September 14, 2007, a verdict was reached in a patent infringement case that involved Andrew and TruePosition. A jury found that Andrew had in fact willfully infringed a single TruePosition patent and awarded True Position $45.3 million in damages (see legal discussion below). In addition, in March of 2008, TruePosition served Andrew with a complaint that alleges Andrew breached certain patent royalty obligations and is seeking an additional $30 million. Although CTV is trying to have the initial ruling reduced or overturned and is defending itself in the more recent lawsuit, it seems as if at least one of these payments will certainly have negative implications on cash flow.

Given that the economy is likely to continue to slow thereby negatively impacting at least the Broadband segment (13.5% of total revenues) and perhaps even other segments, we have a hard time seeing how CTV will be able to maintain its heavy debt burden. In fact, in the 1Q08 10-Q under management's discussion of financing activities, CTV says, "management is evaluating our capital structure and may consider various alternatives, including but not limited to, reducing debt levels by making additional principal payments on our outstanding term loans or inducing additional conversions of some or all of our 1% convertible debentures or raising additional capital." Furthermore, CTV's 2007 SEC Form 10-K says, "reduced sales and profitability could reduce cash provided by operations and limit availability under credit facilities." It seems almost certain that additional financing of some sort is in the Company's near-term future.

Balance Sheet: Cash & equivalents

CTV's cash position fell by 30% in the 1Q08 due to the Andrew acquisition but still accounts for 9.4% of total assets. Cash and equivalents now stand at $459 million versus $649 million at the end of 2007. A small side note, during 1Q08, CTV determined that its auction rate securities (with an original principal of $5.8 million but only 1% of cash and equivalents) "were further impaired and that the impairment continued to be other-than-temporary." As a result, a pre-tax loss of $0.6 million was included in other expense.

Balance Sheet: Long-term debt

Debt to equity and debt to total capital have both increased significantly due to the Andrew acquisition. Total debt stood at $2.305 billion at the end of the 1Q08 versus $262 million at the end of 3Q07. The increase in debt due to the Andrew acquisition increased debt to equity and debt to total capital ratios to 171% and 63% respectively at the end of 1Q08 versus 27% and 21% at the end of the 3Q07.

In fact, on 06/27/07, the day of the announcement of the intent to acquire Andrew, Standard & Poor's Rating Services lowered CTV's credit rating to "BB-" from "BB" and placed the ratings on CreditWatch with negative implications. Moody's Investor Service also lowered CTV's rating to "Ba3" with a stable outlook on 10/12/07. On 10/17/07 S&P removed CTV from CreditWatch and affirmed the "BB-" rating with a stable outlook. Note: this disclosure was not made in the 2Q 10-Q even though the 2Q ended on the 30th of June. This disclosure was made in the 3Q 10-Q and was only made in the risk section. We would also note that CTV's corporate debt rating was last downgraded in 2003 from "BB+" to "BB".

As one might expect, interest expense jumped through the roof in the 1Q08 with CTV incurring $34.4 million in net interest expenses versus net interest income of $2.6 million in the 1Q07. Interest expense also includes a $1.9 million charge related to ineffectiveness on the interest rate swap entered into as a result of the debt taken on to finance the Andrew acquisition. CTV states that it does not expect additional ineffectiveness. However, it is important to note that 89% of CTV's debt at the end of fiscal 2007 was tied to variable interest rates. Should any increase in interest rates take place, this would only add further stress to CTV's income statement.

Balance Sheet: Inventories

Raw materials have been increasing primarily as a result of increased costs, while work in process and finished goods have been decreasing. In fact, finished goods declined by 17.6% in the 1Q08, while work in progress declined 5.3%. Throughout 2007 inventories seemed to have followed a normal course of increases and decreases with a near quadrupling of inventories taking place in the 4Q07 as a result of the Andrew acquisition.

Balance Sheet: Other Current Accrued Liabilities

It should be noted that with the Andrew acquisition several liabilities have appeared in the “other” category. Three that are worth mentioning are $61.2 million (15% of other current accrued liabilities) for purchase price payable, $45.3 million (11.3%) for litigation reserve related to TruePosition and $175 million (43.8%) for an unknown “other”. This “other category was only $28 million in 2006 and accounted for 30% of total other current accrued liabilities.

Legal: Patent infringement and royalty payment risks

The acquisition of Andrew came with a few skeletons. In fact, in 2007 Andrew was involved in patent infringement litigation. The jury found that Andrew had in fact willfully infringed a single TruePosition patent and awarded True Position $45.3 million in damages. CTV states in its 1Q08 10-Q that if the patent infringement case is not overturned, that CTV may see the “loss of future revenue opportunities, including opportunities to manufacture and sell products using uplink time difference of arrival (U-TDOA) technology.”

In addition, in March of 2008 TruePosition served Andrew with a second lawsuit that alleges Andrew breached certain patent license royalty obligations. TruePosition is seeking an additional $30 million from Andrew. CTV’s 1Q08 10-Q discloses that CTV is involved in other pending legal matters, “however, management believes none of these legal matters, **other than the TruePosition litigation**, will have a materially adverse effect on the Company’s financial statements upon final disposition.” [bolding is ours].

Risks (2006 SEC Form 10-K vs. 2007 SEC Form 10-K and 1Q08 SEC Form 10-Q)

In the 2007 SEC Form 10-K, the risks that did not appear before primarily relate to the Andrew acquisition. In addition to the general comments on integration and realizing synergies, there were a few other comments that stood out to us and they are as follows:

- We may need to undertake restructuring actions in the future

- Now with the Andrew acquisition a larger percentage of revenues come from outside of the US. Legacy Andrew had 62% of its sales generated in international markets at the end of 2007. The combined group now has nearly 50%.

- We may have difficulty comparing financial reports due to differing financial and /or internal reporting systems.

- A jury has found that Andrew willfully infringed a third party's patent providing a mobile location system to a customer located in the Middle East, and the jury awarded $45.3m in damages to that party.

- …"we have substantial indebtedness." As such, "a substantial portion of our annual cash flow for the next several years must be dedicated to the payment of principal and interest on the indebtedness; the interest cost on a significant portion of our indebtedness is subject to changes in interest rates and our results of operations could be adversely affected by an increase in interest rates; we will be substantially more leveraged than certain of our competitors, which might place us at a competitive disadvantage; we will be subject to restrictive covenants that may negatively affect our operational or financial flexibility or our ability to pursue additional acquisitions; our high degree of leverage could make us move vulnerable in the event of a downturn in general economic conditions or business."

- Our public debt ratings affect our ability to raise capital and the cost of that capital. As of December 31, 2007 our corporate debt rating from Standard & Poor's is 'BB-". (Note: this is still the case as of the end of the 1Q08.)

- "We may experience significant variability in our quarterly and annual effective tax rate. …As a result, of the Andrew acquisition, we have a larger and more complex international tax profile and a significantly greater level of net operating loss and other carry fowards. Variability in the mix a profitability of domestic and international activities, identification and resolution of various tax uncertainties and the inability to reailze net operating loss and other carry forwards included in deferred tax assets, among other matters, may significantly impact our effective tax rate in the future. A significant increase in our effective income tax rate could have a material adverse impact on our results of operations."

  On the 4Q07 conference call – one analyst did ask about tax planning – the response, very basic, "we are engaged in tax planning currently."

As far as the other risks, the remaining risks do not seem to have changed between 2006 and 2007.

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