AMPHENOL CORP /DE/
Form 10-Q
August 03, 2017
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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 June 30, 2017

OR

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

Commission file number 1-10879

AMPHENOL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	22-2785165
(State of Incorporation)	(IRS Employer Identification No.)

358 Hall Avenue

Wallingford, Connecticut 06492

(Address of principal executive offices) (Zip Code)

203-265-8900

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

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

As of July 31, 2017, the total number of shares outstanding of the registrant's Class A Common Stock was 305,444,890.

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Amphenol Corporation

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AMPHENOL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(dollars in millions)

	June 30, 2017	December 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,316.9	$ 1,034.6
Short-term investments	43.2	138.6
Total cash, cash equivalents and short-term investments	1,360.1	1,173.2
Accounts receivable, less allowance for doubtful accounts of $18.6 and $23.6, respectively	1,407.3	1,349.3
Inventories	1,059.2	928.9
Other current assets	165.8	139.8
Total current assets	3,992.4	3,591.2
Property, plant and equipment, less accumulated depreciation of $1,102.6 and $1,007.2, respectively	769.4	711.4
Goodwill	3,902.4	3,678.8
Intangibles, net and other long-term assets	508.7	517.3
	$ 9,172.9	$ 8,498.7
Liabilities & Equity		
Current Liabilities:		
Accounts payable	$ 769.9	$ 678.2
Accrued salaries, wages and employee benefits	141.2	131.8
Accrued income taxes	85.3	125.1
Accrued dividends	48.9	49.3
Other accrued expenses	292.6	275.6
Current portion of long-term debt	376.0	375.2
Total current liabilities	1,713.9	1,635.2
Long-term debt, less current portion	3,020.6	2,635.5
Accrued pension and postretirement benefit obligations	296.5	288.4
Other long-term liabilities	226.0	216.5

Equity:		
Common stock	0.3	0.3
Additional paid-in capital	1,114.2	1,020.9
Retained earnings	3,101.4	3,122.7
Accumulated other comprehensive loss	(341.0)	(469.0)
Total shareholders’ equity attributable to Amphenol Corporation	3,874.9	3,674.9
Noncontrolling interests	41.0	48.2
Total equity	3,915.9	3,723.1
	$ 9,172.9	$ 8,498.7

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(dollars and shares in millions, except per share data)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net sales	$ 1,666.5	$ 1,548.2	$ 3,226.6	$ 2,999.4
Cost of sales	1,113.9	1,050.9	2,158.1	2,042.8
Gross profit	552.6	497.3	1,068.5	956.6
Acquisition-related expenses	4.0	—	4.0	30.3
Selling, general and administrative expenses	212.4	197.0	414.2	386.5
Operating income	336.2	300.3	650.3	539.8
Interest expense	(23.4)	(18.0)	(42.7)	(36.1)
Other income, net	4.4	1.7	7.9	2.7
Income before income taxes	317.2	284.0	615.5	506.4
Provision for income taxes	(63.6)	(75.3)	(134.6)	(139.2)
Net income	253.6	208.7	480.9	367.2
Less: Net income attributable to noncontrolling interests	(2.1)	(2.2)	(4.5)	(4.0)
Net income attributable to Amphenol Corporation	$ 251.5	$ 206.5	$ 476.4	$ 363.2
Net income per common share — Basic	$ 0.82	$ 0.67	$ 1.56	$ 1.18
Weighted average common shares outstanding — Basic	305.8	308.2	306.2	307.9
Net income per common share — Diluted	$ 0.80	$ 0.65	$ 1.51	$ 1.15
Weighted average common shares outstanding — Diluted	316.1	315.4	316.3	314.8
Dividends declared per common share	$ 0.16	$ 0.14	$ 0.32	$ 0.28

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 253.6	$ 208.7	$ 480.9	$ 367.2
Total other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	57.4	(34.9)	120.3	11.2
Unrealized gain (loss) on cash flow hedges	0.5	(1.3)	0.6	1.0
Defined benefit plan adjustment, net of tax of ($2.2) and ($4.4) for 2017 and ($2.2) and ($4.4) for 2016, respectively	4.2	4.0	8.3	8.0
Total other comprehensive income (loss), net of tax	62.1	(32.2)	129.2	20.2
Total comprehensive income	315.7	176.5	610.1	387.4
Less: Comprehensive income attributable to noncontrolling interests	(2.8)	(1.4)	(5.7)	(3.5)
Comprehensive income attributable to Amphenol Corporation	$ 312.9	$ 175.1	$ 604.4	$ 383.9

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(dollars in millions)

	Six Months Ended June 30,	
	2017	2016
Cash from operating activities:		
Net income	$ 480.9	$ 367.2
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	110.6	112.4
Stock-based compensation expense	24.4	23.2
Excess tax benefits from stock-based compensation payment arrangements	—	(16.5)
Net change in components of working capital	(115.8)	(62.6)
Net change in other long-term assets and liabilities	18.1	14.1
Net cash provided by operating activities	518.2	437.8
Cash from investing activities:		
Capital expenditures	(100.2)	(89.1)
Proceeds from disposals of property, plant and equipment	0.7	3.4
Purchases of short-term investments	(33.5)	(33.0)
Sales and maturities of short-term investments	131.5	25.2
Acquisitions, net of cash acquired	(199.0)	(1,185.8)
Net cash used in investing activities	(200.5)	(1,279.3)
Cash from financing activities:		
Proceeds from issuance of senior notes	749.3	—
Borrowings (repayments) under commercial paper program, net	(364.1)	18.1
Payment of costs related to debt financing	(5.2)	(3.0)
Proceeds from exercise of stock options	73.0	67.8
Excess tax benefits from stock-based compensation payment arrangements	—	16.5
Distributions to and purchases of noncontrolling interests	(19.6)	(4.1)
Purchase and retirement of treasury stock	(399.9)	(108.4)
Dividend payments	(98.2)	(86.3)
Net cash used in financing activities	(64.7)	(99.4)
Effect of exchange rate changes on cash and cash equivalents	29.3	(2.3)
Net change in cash and cash equivalents	282.3	(943.2)
Cash and cash equivalents balance, beginning of period	1,034.6	1,737.2

Cash and cash equivalents balance, end of period	$ 1,316.9	$ 794.0
Cash paid for:		
Interest	$ 35.4	$ 34.0
Income taxes	173.7	138.7

See accompanying notes to condensed consolidated financial statements.

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AMPHENOL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(dollars in millions, except per share data)

Note 1—Basis of Presentation and Principles of Consolidation

The condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016, the related condensed consolidated statements of income and condensed consolidated statements of comprehensive income for the three and six months ended June 30, 2017 and 2016, and the related condensed consolidated statements of cash flow for the six months ended June 30, 2017 and 2016 include the accounts of Amphenol Corporation and its subsidiaries ("Amphenol", the "Company", "we", "our", or "us"). All material intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated financial statements included herein are unaudited. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America have been included. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements and the related notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 Annual Report").

Note 2—New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. ("ASU") 2014 09, Revenue from Contracts with Customers ("ASU 2014 09"), which stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract(s), (3) determine the transaction price(s), (4) allocate the transaction price(s) to the performance obligations in the contract(s), and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires advanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance under ASU 2014 09 shall apply for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. Since 2014, the FASB has issued various related updates including, but not limited to, ASU 2016 08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarified the implementation guidance on principal versus agent considerations, and ASU 2016 10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarified the implementation guidance regarding performance obligations and licensing arrangements. The Company has developed an implementation plan, involving teams across our organization to review and implement the requirements of ASU 2014 09. We have substantially completed the review of our contracts and the related revenue streams, and we currently expect most of our businesses to continue recognizing revenue on a “point-in-time” basis, while certain businesses may require some “over time” revenue recognition under the new standard. The Company began establishing internal controls, policies, processes and required disclosures, reviewing our current systems, and identifying system impacts and necessary system changes during the second quarter of 2017, and in the third quarter of 2017, the Company plans to begin testing and integrating the standard into our financial reporting processes and systems. As permitted under the standard, the Company plans to adopt ASU 2014 09 in the first quarter of 2018 using the modified retrospective approach and to recognize the cumulative effect of applying this new standard on existing, uncompleted contracts at the adoption date, as an adjustment to the opening balance of retained earnings as of January 1, 2018. In the fourth quarter of 2017, the Company plans to begin quantifying the impact of this new standard on our consolidated balance sheet as required under the modified retrospective method of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016 02”), which amends, among other things, the existing guidance by requiring lessees to recognize lease assets (right-to-use) and liabilities (for reasonably certain lease payments) arising from operating leases on the balance sheet. For leases with a term of twelve months or less, ASU 2016 02 permits an entity to make an accounting policy election to recognize such leases as lease expense, generally on a straight-line basis over the lease term. ASU 2016 02 is effective for fiscal years, and interim

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periods within those fiscal years, beginning after December 15, 2018 using a modified retrospective approach, with early adoption permitted. The Company has begun evaluating ASU 2016 02, including the initial review of any necessary changes to our existing processes and systems that will be required to implement this new standard, in order to determine its impact on our consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016 09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016 09"), which simplifies certain provisions associated with the accounting for stock compensation. ASU 2016 09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. In the first quarter of 2017, the Company adopted ASU 2016 09, which requires any excess tax benefits and tax deficiencies to be recorded as a discrete income tax item in the statement of income in the period in which they occur. For the three and six months ended June 30, 2017, this change resulted in the recognition of tax benefits of approximately $21.2 (or $0.07 per share) and $29.2 (or $0.09 per share), respectively, within the provision for income taxes in the accompanying Condensed Consolidated Statements of Income. Under previous accounting guidance, these tax benefits would have been recorded directly to equity. Since this provision of the standard was applied prospectively, there was no impact to prior periods. As of January 1, 2017, the Company did not have any unrecognized excess tax benefits in which the related tax deduction did not reduce income taxes payable and therefore, there was no cumulative-effect adjustment to beginning retained earnings. The ASU also eliminated the requirement to reclassify cash flows related to excess tax benefits from operating activities to financing activities in the statement of cash flows, but rather requires such excess tax benefits and deficiencies to be classified within operating activities, consistent with other cash flows related to income taxes. The Company adopted this provision prospectively, and prior period amounts in the Statements of Cash Flow have not been adjusted. As permitted, the Company elected to continue its existing accounting practice of estimating forfeitures when recognizing stock-based compensation expense. Other provisions of this standard did not and are not expected to have a material impact on our consolidated financial statements. The impact of this guidance on our consolidated financial statements could result in significant fluctuations in our effective tax rate in the future, since tax expense will be impacted by the timing and intrinsic value of future stock-based compensation award exercises. Refer to Note 6, Note 8 and Note 15 for further discussion on the impact of this standard.

In March 2017, the FASB issued ASU 2017 07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017 07"), requiring employers to provide more details about the components of costs related to retirement benefits. Specifically, ASU 2017 07 requires employers to report the service costs for providing pensions to employees in the same line item as other employee compensation costs, while the other pension-related costs such as interest costs, amortization of pension-related costs from prior periods, and the gains or losses on plan assets, should be reported separately and outside of the subtotal of operating income. ASU 2017 07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted only if adopted in the first quarter of the Company's fiscal year. The Company has evaluated ASU 2017 07 which requires certain expenses to be reclassified within the income statement, and we do not expect the reclassification to be material. The Company will adopt this new standard in the first quarter of 2018.

In May 2017, the FASB issued ASU 2017 09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017 09"), which provides guidance to determine which changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting in Topic 718. ASU 2017 09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted, and requires prospective application to changes in terms or conditions of awards occurring on or after the adoption date. The Company is currently evaluating ASU 2017 09 and its impact on our consolidated financial statements.

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Note 3—Inventories

Inventories consist of:

	June 30, 2017	December 31, 2016
Raw materials and supplies	$ 386.3	$ 319.8
Work in process	357.2	313.4
Finished goods	315.7	295.7
	$ 1,059.2	$ 928.9

Note 4—Reportable Business Segments

The Company has two reportable business segments: (i) Interconnect Products and Assemblies and (ii) Cable Products and Solutions. The Company organizes its reportable business segments based upon similar economic characteristics and business groupings of products, services and customers. These reportable business segments are determined based upon how the Company reviews its businesses, assesses operating performance and makes investing and resource allocation decisions. The Interconnect Product and Assemblies segment primarily designs, manufactures and markets a broad range of connector and connector systems, value-add products and other products, including antennas and sensors, used in a broad range of applications in a diverse set of end markets. The Cable Products and Solutions segment primarily designs, manufactures and markets cable, value-add products and components for use primarily in the broadband communications and information technology markets as well as certain applications in other markets. The accounting policies of the segments are the same as those for the Company as a whole and are described in Note 1 of the notes to the consolidated financial statements in the Company's 2016 Annual Report. The Company evaluates the performance of business units on, among other things, profit or loss from operations before interest, headquarters' expense allocations, stock-based compensation expense, income taxes, amortization related to certain intangible assets and nonrecurring gains and losses.

The segment results for the three and six months ended June 30, 2017 and 2016 are as follows:

	Interconnect Products and Assemblies		Cable Products and Solutions		Total Reportable Business Segments	
Three Months Ended June 30:	2017	2016	2017	2016	2017	2016

Net sales:						
External	$ 1,559.3	$ 1,456.0	$ 107.2	$ 92.2	$ 1,666.5	$ 1,548.2
Intersegment	1.9	1.9	10.4	6.5	12.3	8.4
Segment operating income	348.4	309.0	16.0	13.7	364.4	322.7
Six Months Ended June 30:						
Net sales:						
External	$ 3,022.8	$ 2,823.8	$ 203.8	$ 175.6	$ 3,226.6	$ 2,999.4
Intersegment	4.2	3.5	20.6	12.9	24.8	16.4
Segment operating income	672.4	590.1	29.7	24.8	702.1	614.9

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A reconciliation of segment operating income to consolidated income before income taxes for the three and six months ended June 30, 2017 and 2016 is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Segment operating income	$ 364.4	$ 322.7	$ 702.1	$ 614.9
Interest expense	(23.4)	(18.0)	(42.7)	(36.1)
Other income, net	4.4	1.7	7.9	2.7
Stock-based compensation expense	(12.3)	(11.7)	(24.4)	(23.2)
Acquisition-related expenses	(4.0)	—	(4.0)	(30.3)
Other operating expenses	(11.9)	(10.7)	(23.4)	(21.6)
Income before income taxes	$ 317.2	$ 284.0	$ 615.5	$ 506.4

Note 5—Changes in Equity and Noncontrolling Interests

Net income attributable to noncontrolling interests is classified below net income. Earnings per share is determined after the impact of the noncontrolling interests' share in net income of the Company. In addition, the equity attributable to noncontrolling interests is presented as a separate caption within equity.

A rollforward of consolidated changes in equity for the six months ended June 30, 2017 is as follows:

	Amphenol Corporation Shareholders							
	Common Stock Shares (in millions)	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total Equity
Balance as of December 31, 2016	308.3	$ 0.3	$ 1,020.9	$ 3,122.7	$ (469.0)	$ —	$ 48.2	$ 3,723.1
Net income				476.4			4.5	480.9
Other comprehensive income (loss)					128.0		1.2	129.2
Acquisitions resulting in							0.8	0.8

noncontrolling interest								
Purchase of noncontrolling interest			(5.5)				(9.5)	(15.0)
Distributions to shareholders of noncontrolling interests							(4.2)	(4.2)
Purchase of treasury stock						(399.9)		(399.9)
Retirement of treasury stock	(5.7)			(399.9)		399.9		—
Stock options exercised	2.6		74.4					74.4
Dividends declared				(97.8)				(97.8)
Stock-based compensation expense			24.4					24.4
Balance as of June 30, 2017	305.2	$ 0.3	$ 1,114.2	$ 3,101.4	$ (341.0)	$ —	$ 41.0	$ 3,915.9

A rollforward of consolidated changes in equity for the six months ended June 30, 2016 is as follows:

	Amphenol Corporation Shareholders							
	Common Stock Shares (in millions)	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Interests	Total Equity
Balance as of December 31, 2015	308.0	$ 0.3	$ 783.3	$ 2,804.4	$ (349.5)	$ —	$ 39.9	$ 3,278.4
Net income				363.2			4.0	367.2
Other comprehensive income (loss)					20.7		(0.5)	20.2
Distributions to shareholders of noncontrolling interests							(4.1)	(4.1)
Purchase of treasury stock						(108.4)		(108.4)
Retirement of treasury stock	(2.0)			(108.4)		108.4		—
Stock options exercised, including tax benefit	2.6		83.7					83.7

Dividends declared				(86.3)				(86.3)
Stock-based compensation expense			23.2					23.2
Balance as of June 30, 2016	308.6	$ 0.3	$ 890.2	$ 2,972.9	$ (328.8)	$ —	$ 39.3	$ 3,573.9

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Note 6—Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to Amphenol Corporation by the weighted average number of common shares outstanding. Diluted EPS is computed by dividing net income attributable to Amphenol Corporation by the weighted average number of common shares and dilutive common shares outstanding, which relates to stock options. A reconciliation of the basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the three and six months ended June 30, 2017 and 2016 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars and shares in millions, except per share data)	2017	2016	2017	2016
Net income attributable to Amphenol Corporation shareholders	$ 251.5	$ 206.5	$ 476.4	$ 363.2
Basic weighted average common shares outstanding	305.8	308.2	306.2	307.9
Effect of dilutive stock options	10.3	7.2	10.1	6.9
Diluted weighted average common shares outstanding	316.1	315.4	316.3	314.8
Earnings per share attributable to Amphenol Corporation shareholders:				
Basic	$ 0.82	$ 0.67	$ 1.56	$ 1.18
Diluted	$ 0.80	$ 0.65	$ 1.51	$ 1.15

Excluded from the computations above were anti-dilutive common shares of 1.7 million and 8.2 million for the three months ended June 30, 2017 and 2016, respectively and 1.0 million and 10.0 million for the six months ended June 30, 2017 and 2016, respectively.

In addition to the impact on the provision for income taxes discussed in Note 2 herein, the adoption of ASU 2016-09 in 2017 requires that excess tax benefits and tax deficiencies be excluded from the assumed proceeds available in calculating the dilutive effect of stock options under the treasury stock method. As required, the Company adopted this provision of the new standard prospectively, which had the effect of increasing the Company's diluted weighted average common shares outstanding by approximately two million shares for both the three and six months ended June 30, 2017.

Note 7—Commitments and Contingencies

The Company has been named as a defendant in several legal actions arising from normal business activities. The Company records a loss contingency liability when a loss is considered probable and the amount can be reasonably estimated. Although the potential liability with respect to certain of such legal actions cannot be reasonably estimated, none of such matters is expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company's legal costs associated with defending itself are recorded to expense as incurred.

Certain operations of the Company are subject to environmental laws and regulations which govern the discharge of pollutants into the air and water, as well as the handling and disposal of solid and hazardous wastes. The Company believes that its operations are currently in substantial compliance with applicable environmental laws and regulations and that the costs of continuing compliance will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Note 8—Stock-Based Compensation

For the three months ended June 30, 2017 and 2016, the Company's income before income taxes was reduced for stock-based compensation expense of $12.3 and $11.7, respectively, and for the six months ended June 30, 2017 and 2016, the Company's income before income taxes was reduced for stock-based compensation expense of $24.4 and $23.2, respectively. In addition, for the three months ended June 30, 2017 and 2016, the Company recognized income tax benefits associated with stock-based compensation of $24.1 and $2.8, respectively, and for the six months ended June 30, 2017 and 2016, the Company recognized income tax benefits associated with stock-based compensation of $35.1 and $5.5, respectively. The income tax benefits during the three and six months ended June 30, 2017 above include the tax benefit from option exercises during such periods in accordance with the adoption of

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ASU 2016 09 (Note 2). Under previous accounting guidance, a portion of this benefit would have been recorded directly to equity. The income tax benefit associated with stock options is included in the provision for income taxes in the accompanying Condensed Consolidated Statements of Income.

Stock-based compensation expense includes the estimated effects of forfeitures, which are adjusted over the requisite service period to the extent actual forfeitures differ or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and impact the amount of expense to be recognized in future periods. The expense incurred for stock-based compensation is included in Selling, general and administrative expense in the accompanying Condensed Consolidated Statements of Income.

Stock Options

In May 2017, the Company adopted the 2017 Stock Purchase and Option Plan for Key Employees of Amphenol and Subsidiaries (the “2017 Employee Option Plan”). The Company also continues to maintain the 2009 Stock Purchase and Option Plan for Key Employees of Amphenol and Subsidiaries, as amended (the “2009 Employee Option Plan”) and the 2000 Stock Purchase and Option Plan for Key Employees of Amphenol and Subsidiaries, as amended (the “2000 Employee Option Plan”), although no additional stock options will be granted under the 2009 Employee Option Plan or the 2000 Employee Option Plan. A committee of the Company’s Board of Directors has been authorized to grant stock options pursuant to the 2017 Employee Option Plan. The number of shares of the Company’s Class A Common Stock (“Common Stock”) reserved for issuance under the 2017 Employee Option Plan is 30,000,000 shares. As of June 30, 2017, there were 23,113,400 shares of Common Stock available for the granting of additional stock options under the 2017 Employee Option Plan. Options granted under the 2017 Employee Option Plan and the 2009 Employee Option Plan generally vest ratably over a period of five years from the date of grant and are generally exercisable over a period of ten years from the date of grant. Options granted under the 2000 Employee Option Plan are fully vested and are generally exercisable over a period of ten years from the date of grant.

In 2004, the Company adopted the 2004 Stock Option Plan for Directors of Amphenol Corporation (the “2004 Directors Option Plan”). The 2004 Directors Option Plan is administered by the Company’s Board of Directors. As of June 30, 2017, there were 140,000 shares of Common Stock available for the granting of additional stock options under the 2004 Directors Option Plan, although no additional stock options are expected to be granted under this plan. Options were last granted under the 2004 Directors Option Plan in May 2011. Options granted under the 2004 Directors Option Plan are fully vested and are generally exercisable over a period of ten years from the date of grant.

Stock option activity for the three and six months ended June 30, 2017 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2017	32,266,391	$ 44.14	7.03	$ 744.1
Options granted	—			
Options exercised	(834,925)			
Options forfeited	(45,660)			
Options outstanding at March 31, 2017	31,385,806	44.54	6.85	835.7
Options granted	6,886,600			
Options exercised	(1,759,976)			
Options forfeited	(70,160)			
Options outstanding at June 30, 2017	36,442,270	$ 50.65	7.33	$ 844.3
Vested and non-vested options expected to vest at June 30, 2017	34,211,920	$ 49.93	7.24	$ 817.4
Exercisable options at June 30, 2017	16,697,570	$ 38.47	5.75	$ 590.3

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A summary of the status of the Company’s non-vested options as of June 30, 2017 and changes during the three and six months then ended is as follows:

	Options	Weighted Average Fair Value at Grant Date
Non-vested options at January 1, 2017	18,725,570	$ 7.99
Options granted	—	—
Options vested	(82,740)	8.17
Options forfeited	(45,660)	7.84
Non-vested options at March 31, 2017	18,597,170	7.98
Options granted	6,886,600	8.77
Options vested	(5,668,910)	7.91
Options forfeited	(70,160)	8.20
Non-vested options at June 30, 2017	19,744,700	$ 8.28

During the three and six months ended June 30, 2017 and 2016, the following activity occurred under the Company’s option plans:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total intrinsic value of stock options exercised	$ 79.6	$ 62.0	$ 114.1	$ 82.6
Total fair value of stock options vested	44.8	42.1	45.5	42.5

As of June 30, 2017, the total compensation cost related to non-vested options not yet recognized was approximately $143.6 with a weighted average expected amortization period of 3.66 years.

The grant-date fair value of each option grant under the 2000 Employee Option Plan, the 2009 Employee Option Plan, the 2017 Employee Option Plan and the 2004 Directors Option Plan is estimated using the Black-Scholes option pricing model. The grant-date fair value of each share grant is determined based on the closing share price of the Company’s Common Stock on the date of the grant. The fair value is then amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Use of a valuation model for option grants requires management to make certain assumptions with respect to selected model inputs. Expected share price volatility is calculated based on the historical volatility of the Common Stock and implied volatility derived from related exchange traded options. The average expected life is based on the contractual term of the option and expected exercise and historical post-vesting termination experience. The risk-free interest rate is based on U.S. Treasury zero-coupon issuances with a remaining term equal to the expected life assumed at the date of grant. The expected annual dividend per share is based on the Company’s dividend rate.

Restricted Shares

In 2012, the Company adopted the 2012 Restricted Stock Plan for Directors of Amphenol Corporation (the “2012 Directors Restricted Stock Plan”). The 2012 Directors Restricted Stock Plan is administered by the Company’s Board of Directors. As of June 30, 2017, the number of restricted shares available for grant under the 2012 Directors Restricted Stock Plan was 125,543. Restricted shares granted under the 2012 Directors Restricted Stock Plan generally vest on the first anniversary of the grant date. Grants under the 2012 Directors Restricted Stock Plan entitle the holder to receive shares of the Company’s Common Stock without payment.

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Restricted share activity for the three and six months ended June 30, 2017 was as follows:

	Restricted Shares	Fair Value at Grant Date	Weighted Average Remaining Amortization Term (in years)
Restricted shares outstanding at January 1, 2017	16,905	$ 57.99	0.38
Restricted shares granted	—	—	
Restricted shares outstanding at March 31, 2017	16,905	57.99	0.13
Shares vested and issued	(16,905)	57.99	
Restricted shares granted	11,526	72.90	
Restricted shares outstanding at June 30, 2017	11,526	$ 72.90	0.89

As of June 30, 2017, the total compensation cost related to non-vested restricted shares not yet recognized was approximately $0.7 with a weighted average expected amortization period of 0.89 years.

Note 9—Shareholders' Equity

On January 24, 2017, the Company's Board of Directors authorized a new stock repurchase program under which the Company may purchase up to $1,000.0 of the Company's Common Stock during the two-year period ending January 24, 2019 in accordance with the requirements of Rule 10b-18 of the Exchange Act (the "2017 Stock Repurchase Program"). During the six months ended June 30, 2017, the Company repurchased 5.7 million shares of its common stock for $399.9. These treasury shares have been retired by the Company and common stock and retained earnings were reduced accordingly. The Company has not repurchased any additional shares of its common stock through July 31, 2017. As of July 31, 2017, the Company has remaining authorization to purchase up to approximately $600.1 of its common stock under the 2017 Stock Repurchase Program. The price and timing of any future purchases under the 2017 Stock Repurchase Program will depend on factors such as levels of cash generation from operations, the volume of stock option exercises by employees, cash requirements for acquisitions, dividends, economic and market conditions and stock price.

Contingent upon declaration by the Board of Directors, the Company generally pays a quarterly dividend on shares of its Common Stock. In October 2016, the Board of Directors approved an increase in the quarterly dividend rate from $0.14 to $0.16 per share effective with dividends declared in the fourth quarter of 2016, and in July 2017, approved a further increase in the quarterly dividend rate from $0.16 to $0.19 per share effective with dividends declared in the third quarter of 2017. For the three and six months ended June 30, 2017, the Company paid dividends in the amount of $48.9 and $98.2, respectively, and declared dividends in the amount of $48.8 and $97.8, respectively. For the three and six months ended June 30, 2016, the Company paid dividends in the amount of $43.0 and $86.3, respectively, and declared dividends in the amount of $43.2 and $86.3, respectively.

Note 10—Benefit Plans and Other Postretirement Benefits

The Company and certain of its domestic subsidiaries have defined benefit pension plans (the "U.S. Plans"), which cover certain U.S. employees and which represent the majority of the plan assets and benefit obligations of the aggregate defined benefit plans of the Company. The U.S. Plans' benefits are generally based on years of service and compensation and are generally noncontributory. Certain U.S. employees not covered by the U.S. Plans are covered by defined contribution plans. Certain foreign subsidiaries have defined benefit plans covering their employees (the "International Plans" and, together with the U.S. Plans, the "Plans"). The following is a summary, based on the most

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recent actuarial valuations of the Company's net cost for pension benefits, of the Plans and other postretirement benefits for the three and six months ended June 30, 2017 and 2016:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended June 30:	2017	2016	2017	2016
Service cost	$ 2.4	$ 2.3	$ —	$ —
Interest cost	4.9	4.8	0.1	0.1
Expected return on plan assets	(7.7)	(7.7)	—	—
Amortization of prior service cost	0.7	0.5	—	—
Amortization of net actuarial losses	5.7	4.9	0.2	0.2
Net pension expense	$ 6.0	$ 4.8	$ 0.3	$ 0.3
Six Months Ended June 30:				
Service cost	$ 4.9	$ 4.6	$ —	$ —
Interest cost	9.9	10.6	0.2	0.2
Expected return on plan assets	(15.5)	(15.2)	—	—
Amortization of prior service cost	1.4	1.1	—	—
Amortization of net actuarial losses	11.4	11.2	0.3	0.3
Net pension expense	$ 12.1	$ 12.3	$ 0.5	$ 0.5

For the three and six months ended June 30, 2017, the Company did not make a cash contribution to the Plans, and estimates that, based on current actuarial calculations, it will make aggregate cash contributions to the Plans in 2017 of approximately $25.0, the majority of which will be to the U.S. Plans. The timing and amount of cash contributions in subsequent years will depend on a number of factors, including the investment performance of the Plans' assets.

The Company offers various defined contribution plans for certain U.S. and foreign employees. Participation in these plans is based on certain eligibility requirements. The Company matches the majority of employee contributions to U.S. defined contribution plans with cash contributions up to a maximum of 5% of eligible compensation. During the six months ended June 30, 2017 and 2016, the total matching contributions to the U.S. defined contribution plans were approximately $3.2 and $2.2, respectively.

Note 11—Acquisitions

On January 8, 2016, the Company acquired all of the share capital of FCI Asia Pte Ltd ("FCI") for a purchase price of approximately $1,178.6, net of cash acquired. The acquisition was funded by cash, cash equivalents and short-term investments that were held outside of the United States. The purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed of FCI based upon their estimated fair values. In the fourth quarter of 2016, the Company completed its analysis of the fair value of the net assets acquired through the use of independent valuations and management's estimates, as noted in the Company's 2016 Annual Report.

The Company completed several other acquisitions in the second half of 2016 and first half of 2017 and is in the process of completing its analyses of the fair value of the assets acquired and liabilities assumed. The Company anticipates that the final assessments of values will not differ materially from the preliminary assessments. These other acquisitions were not material to the Company either individually or in the aggregate.

Acquisition-related Expenses

In the second quarter of 2017, the Company incurred approximately $4.0 ($3.7 after-tax) of acquisition-related expenses related to external transaction costs. In the first quarter of 2016, the Company incurred approximately $30.3 ($27.3 after-tax) of acquisition-related expenses related to the acquisition of FCI, primarily related to external transaction costs, amortization related to the value associated with acquired backlog and post-closing restructuring charges. Such acquisition-related expenses are separately presented in the accompanying Condensed Consolidated Statements of Income.

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Note 12—Goodwill and Other Intangible Assets

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

	Interconnect Products and Assemblies	Cable Products and Solutions	Total
Goodwill at December 31, 2016	$ 3,532.5	$ 146.3	$ 3,678.8
Acquisition-related	153.5	—	153.5
Foreign currency translation	70.1	—	70.1
Goodwill at June 30, 2017	$ 3,756.1	$ 146.3	$ 3,902.4

Other than goodwill noted above, as well as indefinite-lived trade name intangible assets of approximately $186.1 as of June 30, 2017 and December 31, 2016, the Company's intangible assets are subject to amortization. A summary of the Company's amortizable intangible assets as of June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 390.0	$ 178.6	$ 211.4	$ 381.1	$ 159.1	$ 222.0
Proprietary technology	107.4	45.7	61.7	106.7	40.9	65.8
Backlog and other	34.0	33.5	0.5	34.0	33.5	0.5
Total	$ 531.4	$ 257.8	$ 273.6	$ 521.8	$ 233.5	$ 288.3

Customer relationships, proprietary technology, and backlog and other amortizable intangible assets have weighted average useful lives of approximately 10 years, 11 years and 2 years, respectively, for an aggregate weighted average useful life of approximately 10 years at June 30, 2017.

Intangible assets are included in Intangibles, net and other long-term assets in the accompanying Condensed Consolidated Balance Sheets. The amortization expense for the three months ended June 30, 2017 and 2016 was approximately $12.0 and $11.4, respectively. The amortization expense for the six months ended June 30, 2017 and 2016 was approximately $24.0 and $31.1, respectively. Amortization expense for the six months ended June 30, 2016 included $8.0 related to the amortization of acquired backlog from the FCI acquisition. As of June 30, 2017, amortization expense relating to the Company's current intangible assets estimated for the remainder of 2017 is approximately $24.6 and for each of the next five fiscal years is approximately $45.2 in 2018, $41.2 in 2019, $35.6 in 2020, $30.9 in 2021 and $23.3 in 2022.

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Note 13—Debt

The Company’s debt (net of any unamortized discount) consists of the following: