NAUTICA ENTERPRISES INC
Form 10-Q
July 15, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

(x) Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended May 31, 2003 or

( ) Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ________________ to __________________

Commission File Number: 000-06708

Nautica Enterprises, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	95-2431048
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
40 West 57th Street, New York, N.Y.	10019
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code (212) 541-5757

(Former Name, Former Address and Former Fiscal Year, if changed since last report)

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

Yes X No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No ___

The number of shares of Common Stock outstanding as of July 14, 2003 was 33,611,600.

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES

MAY 31, 2003
(unaudited)

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NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	(unaudited) May 31, 2003	March
ASSETS		
Current assets:		
Cash and cash equivalents	$ 97,588	$ 82
Accounts receivable - net	74,104	98
Inventories	95,667	87

Prepaid expenses and other current assets	6,563	3
Deferred tax benefit	22,050	22
Assets held for sale	1,542	2
Total current assets	297,514	297
Property, plant and equipment, at cost - less accumulated depreciation and amortization	92,321	96
Goodwill, at cost	30,054	30
Other intangibles, at cost - less accumulated amortization	34,913	34
Other assets	12,664	8
Total Assets	$ 467,466	$ 468
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 754	$
Accounts payable - trade	43,403	34
Accrued expenses and other current liabilities	55,044	57
Income taxes payable	8,140	14
Total current liabilities	107,341	106
Long-term liabilities:		
Long-term debt - net	13,379	13
Interest rate swap liability	1,948	1
Total long-term liabilities	15,327	15
Stockholders' equity:		
Preferred stock - par value $.01; authorized, 2,000,000 shares; no shares issued	--	
Common stock - par value $.10; authorized, 100,000,000 shares; issued 45,139,000 shares at May 31, 2003 and 45,136,000 shares at March 1, 2003	4,514	4
Additional paid-in capital	96,238	96
Retained earnings	404,502	406
Accumulated other comprehensive (loss) - net of deferred tax benefit of $593 at May 31, 2003 and $772 at March 1, 2003	(995)	(1
	504,259	505
Less:		
Common stock in treasury, at cost; 11,549,000 shares at May 31, 2003 and 11,534,000 shares at March 1, 2003	(159,461)	(159
Total stockholders' equity	344,798	346
Total Liabilities and Stockholders' Equity	$ 467,466	$ 468

The accompanying notes are an integral part of these statements.

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(amounts in thousands, except share data)

	(unaudited) Three Months Ended May 31, 2003	Three Months Ended June 1, 2002
Net sales	$ 139,220	$ 125,895
Cost of goods sold	80,783	70,161
Gross profit	58,437	55,734
Selling, general and administrative expenses	60,463	59,363
Special charges	3,178	3,356
Net royalty income	(2,830)	(2,372)
Operating loss	(2,374)	(4,613)
Interest expense	408	265
Investment income	(230)	(679)
Loss before benefit for income taxes	(2,552)	(4,199)
Benefit for income taxes	(949)	(1,574)
NET LOSS	$ (1,603)	$ (2,625)
Net loss per share of common stock:		
Basic	$ (0.05)	$ (0.08)
Diluted	$ (0.05)	$ (0.08)
Weighted average number of common shares outstanding:		
Basic	33,592,000	33,432,000
Diluted	33,592,000	33,432,000
Cash dividends per common share	none	none

The accompanying notes are an integral part of these statements.

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	(unaudited) Three Months Ended May 31, 2003	Three Months Ended June 1, 2002

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,603)	$ (2,625)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,152	6,651
Provision for bad debts	436	128
Loss on write-off of long-lived assets	3,575	--
Increase in interest rate swap liability	169	--
Gain on sale of assets held for sale	(958)	
Changes in operating assets and liabilities, net of assets and liabilities acquired		
Short-term investments	--	(444)
Accounts receivable	24,173	25,155
Inventories	(8,037)	2,795
Prepaid expenses and other current assets	(3,135)	(2,061)
Other assets	(3,870)	(1,891)
Accounts payable - trade	8,714	2,038
Accrued expenses and other current liabilities	(1,503)	3,174
Income taxes payable	(5,954)	(1,836)
Total adjustments	19,762	33,709
Net cash provided by operating activities	18,159	31,084
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,519)	(4,305)
Sale of assets held for sale	1,300	--
Net cash used in investing activities	(3,219)	(4,305)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(188)	(188)
Proceeds from issuance of common stock	22	1,656
Purchase of treasury stock	(139)	--
Net cash (used in) provided by financing activities	(305)	1,468
Increase in cash and cash equivalents	14,635	28,247
Cash and cash equivalents at beginning of period	82,953	45,814
Cash and cash equivalents at end of period	$ 97,588	$ 74,061
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 229	$ 315
Cash paid during the period for income taxes	$ 4,953	$ 219

The accompanying notes are an integral part of these statements.

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002
(unaudited)

(amounts in thousands, except share data)

NOTE 1 - The accompanying financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. These statements include all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of financial position and results of operations. The financial statements included herein should be read in conjunction with the financial statements and notes thereto included in the latest annual report on Form 10-K.

NOTE 2 - The results of operations for the three-month period ended May 31, 2003 are not necessarily indicative of the results to be expected for the full year.

NOTE 3 - Certain amounts in the prior year period have been reclassified to conform with classifications used at May 31, 2003.

NOTE 4 - The Company utilized the last-in, first-out "LIFO" method for certain wholesale inventories as at May 31, 2003 and March 1, 2003 and for the three-month periods ended May 31, 2003 and June 1, 2002. The "LIFO" inventory for the three-month periods ended May 31, 2003 and June 1, 2002 are based upon end of year estimates. Inventories at May 31, 2003 and March 1, 2003 consist primarily of finished goods.

NOTE 5 - As of May 31, 2003 and March 1, 2003, the Company had $175,000 in lines of credit with four commercial banks. Such lines of credit are available for short-term borrowings and letters of credit, collateralized by imported inventory and accounts receivable. At May 31, 2003 and March 1, 2003, letters of credit outstanding under the lines were $77,770 and $46,483, respectively, and there were no short-term borrowings outstanding.

NOTE 6 - Basic net loss per share excludes dilution and is computed by dividing the loss available to common stockholders by the weighted-average common shares outstanding for the period. Diluted net loss per share reflects the weighted-average common shares outstanding plus the potential dilutive effect of options, which are convertible into common shares. The diluted net loss per share was the same as basic net loss per share for the three months ended May 31, 2003 and June 1, 2002, since the effect of any potentially dilutive securities were excluded from the calculation because they would be anti-dilutive.

Options that were excluded from the calculation of diluted net loss per share totaled 3,547,300 and 2,612,300 for the three months ended May 31, 2003 and June 1, 2002, respectively.

FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002
(unaudited)
(amounts in thousands, except share data)

NOTE 7 - The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes reporting and disclosure standards for an enterprise's operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by the Company's senior management.

The Company has the following three reportable segments: Wholesale, Retail and Licensing. The Wholesale segment designs, markets, sources and distributes the following to retail store customers: sportswear, activewear, outerwear, a jeans collection, a tailored clothing collection, robes and sleepwear for men; a jeans collection, robes and sleepwear for women; and, a children's collection. The Retail segment sells men's, women's and children's apparel and other Nautica-branded products primarily through its retail store locations directly to consumers. The Licensing segment licenses the Company's trademarks for the manufacture and sale of various products for distribution throughout the world.

The reportable segments are distinct business units, separately managed with different distribution channels.

	Wholesale	Retail	Licensing	Corporate/ elimination
FOR THE THREE MONTHS ENDED MAY 31, 2003				
Net sales	$ 107,125	$ 32,095	$ --	$ --
Segment operating profit (loss)	(881)	359	2,830	(4,682)
Segment assets	275,979	48,578	5,748	137,161
Depreciation expense	4,958	421	21	609
Capital expenditures	2,642	1,329	--	548
FOR THE THREE MONTHS ENDED JUNE 1, 2002				
Net sales	$ 95,337	$ 30,558	$ --	$ --
Segment operating profit (loss)	(363)	225	2,372	(6,847)
Segment assets	254,301	49,717	8,673	111,545
Depreciation expense	5,144	731	106	573
Capital expenditures	3,916	254	--	135

Net sales from external customers represent sales in the United States of America, except for foreign sales of $2,924 and $1,009 for the three months ended May 31, 2003 and June 1, 2002, respectively. The Licensing segment does not report sales, as all of its revenue is derived from royalties, which are reported separately in the consolidated statements of earnings.

Foreign operations resulted in operating losses of $6,339 and $3,287 for the three months ended May 31, 2003 and June 1, 2002,

respectively.

Long-lived assets in foreign countries were $944 and $3,168 for the periods ended May 31, 2003 and June 1, 2002, respectively.

In the Corporate/eliminations column, the segment assets primarily consist of the Company's cash and cash equivalents at May 31, 2003 and June 1, 2002. The segment operating profit (loss) in the Corporate/eliminations column consists of corporate overhead expenses for the three months ended May 31, 2003 and corporate overhead expenses and special charges associated with the closure of the Rockland, Maine distribution facility (see Note 13) for the three months ended June 1, 2002. The special charge associated with the Nautica business in Europe (see Note 13) is reflected in the operating profit (loss) of the Wholesale column for the three months ended May 31, 2003.

NOTE 8 - The Company has a loan agreement with HSBC Bank USA ("HSBC") in the amount of $15,075, the funds of which were used to finance a portion of the construction and development of the Company's distribution facility in Martinsville, Virginia. The loan is secured by a deed of trust on the distribution facility. The net carrying value of the underlying asset was $23,585 at May 31, 2003.

The term of the loan is seven years. Principal payments of $188 and interest payments are due at the end of each calendar quarter. Interest is computed based on the three-month LIBOR rate plus 1.00%. The loan agreement provides for various financial and restrictive covenants including, among others, tangible net worth, minimum fixed charges and minimum funded debt. The loan will mature on November 28, 2008, at which time the entire outstanding loan balance of $9,987 will be due and payable.

The Company entered into a swap agreement with HSBC, effective November 30, 2001, to hedge against interest rate fluctuations. On March 22, 2002, the Company replaced such agreement with a "knock-out" swap agreement with Fleet National Bank ("Fleet"), which expires on November 28, 2008. The swap agreement provides that the Company pays a fixed interest rate of 6.32% on the notional amount. The swap settles quarterly and contains a "knock-out" provision that is activated when the three-month LIBOR rate is at or above 7.00%. If the three-month LIBOR rate rises above 7.00%, the swap knocks out and the Company will not receive any payments under the agreement until such time as the three-month LIBOR rate declines below 7.00%. The three-month LIBOR rate was 1.28% at May 31, 2003. The net interest paid or received under this agreement is included in interest expense.

The Company has adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which requires companies to record all derivative instruments as assets or liabilities on the balance sheet, measured at fair value. The

recognition of gains or losses resulting from changes in the values of those derivative instruments is based on the use of each derivative instrument and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows.

Prior to March 22, 2002, the Company classified the swap as a cash flow hedge in accordance with SFAS No. 133. The fair value of the swap resulted in the Company recording a long-term liability of $858. The fair value was based upon the estimated amount that the Company would have to pay to terminate the agreement. The "knock-out" swap agreement does not qualify for hedge accounting and, accordingly, the Company began recording the changes in the fair market value of the swap from March 22, 2002 as interest expense. The charge to interest expense was $169 for the three months ended May 31, 2003.

The amount of long-term debt maturing in each of the next five fiscal years is as follows:

Fiscal Year Ended	
2004	$ 566
2005	754
2006	754
2007	754
2008	754
Thereafter	10,551
	14,133
Less current maturities	(754)
Total	$ 13,379

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002
(unaudited)
(amounts in thousands, except share data)

NOTE 9 - The Company has adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." It applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans, which provide for granting of options with exercise prices equal to the fair market value of common stock at the date of grant, other than for restricted stock. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS No. 123, the

Company's net earnings and net earnings per share would be reduced to the pro forma amounts as follows:

	May 31, 2003	June 1, 2002
Net loss		
As reported	$(1,603)	$(2,625)
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards granted, modified, or settled, net of tax	(741)	(1,287)
Pro forma	$(2,344)	$ (3,912)
Basic net loss per share		
As reported	$(0.05)	$(0.08)
Pro forma	$(0.07)	$(0.12)
Diluted net loss per share		
As reported	$(0.05)	$(0.08)
Pro forma	$(0.07)	$(0.12)

NOTE 10 - For the three months ended May 31, 2003 and June 1, 2002, comprehensive loss was as follows:

	(unaudited) Three Months Ended May 31, 2003	Three Months Ended June 1, 2002
Net loss	$ (1,603)	$ (2,625)
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustments	292	175
Unrealized loss on interest rate swap	--	(109)
Comprehensive loss	$ (1,311)	$ (2,559)

NAUTICA ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002
(unaudited)
(amounts in thousands, except share data)

NOTE 11 - On November 2, 2001, the Company's Board of Directors adopted a Stockholder Rights Plan that entitled stockholders of record on November 12, 2001 to receive a dividend distribution of one Right for each share of common stock held. The Rights, which expire on November 12, 2011, entitle stockholders to purchase from the Company a unit consisting of 1/100 of a share of Series A Junior Participating Preferred Stock at a price of $60 per unit, subject to adjustment. The Rights will become exercisable only if a person or group, other than the current Chairman of the Board, acquires 15% or more of the Company's common stock. On June 24, 2003 and July 6, 2003, the Company's Board of Directors authorized amendments to the Stockholder Rights Plan (see Note 15).

NOTE 12 - In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement requires that goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective in the first quarter of fiscal year 2003, goodwill and intangible assets with indefinite lives are no longer being amortized, but are being tested for impairment using the guidance for measuring impairment set forth in SFAS No. 142. The components of other intangible assets are as follows:

	(unaudited) May 31, 2003		March 1, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets				
Trademarks	$ 2,453	$ 1,494	$ 2,376	$ 1,405
Other intangibles	956	529	956	482
	3,409	2,023	3,332	1,887
Unamortized trademarks	33,527	--	33,527	--
	$36,936	$ 2,023	$36,859	$ 1,887

Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be $438 in 2004, $527 in 2005, $333 in 2006, $57 in 2007 and $31 in 2008.

NOTE 13 - During the third quarter of the prior fiscal year, the Company determined that based upon the current performance and anticipated future outlook of its Rockefeller Plaza store, and in accordance with SFAS No. 144, the fixed assets of the store were impaired. As a result, the Company incurred a non-cash, pre-tax special charge in connection with this write-down of $10,338.

During the fourth quarter of the prior fiscal year, the Company recorded pre-tax special charges of $2,588 in connection with its decision to transition its Nautica business in Europe to licensing or other arrangements. The special charges consisted of $1,313 in wind-down costs, the write-down of fixed assets and lease

termination costs. The balance of $1,275 represents the impairment of goodwill in accordance with SFAS No. 142. During the current period, additional pre-tax special charges of $3,178 were recorded. These special charges consist of $2,617 for the write-down of fixed assets, and the balance for wind-down, lease termination and severance costs.

The components and related activity for the - above-mentioned special charges relating to the Rockefeller Plaza store and Europe through May 31, 2003 were as follows:

	Asset Write-Down	Wind-Down Costs	Severance and Termination Benefits	Totals
Fiscal Year 2003				
Provision	$ 12,239	$ 548	$ 139	$ 12,926
Fiscal Year 2003 Activity	(12,239)	(478)	(69)	(12,786)
Balance at March 1, 2003	--	70	70	140
Fiscal Year 2004				
Provision	2,617	494	67	3,178
Fiscal Year 2004 Activity	(2,617)	(494)	(67)	(3,178)
Balance at May 31, 2003	$ --	$ 70	$ 70	$ 140

In accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," the Company is expecting an additional pre-tax special charge between $3,500 and $4,500 in the second quarter of the current fiscal year in connection with the transition of the Nautica Europe business.

During the fourth quarter of fiscal 2002, the Company recorded special charges in connection with its decision to close its distribution facility in Rockland, Maine and certain other employee terminations. The special charges related to the closing totaled approximately $13,159, of which $9,803 was recognized in the fourth quarter of fiscal 2002 and $3,356 was recognized in the first quarter of fiscal 2003. The special charges are comprised of the write-down of the facility from its net carrying value of $10,712 to its estimated net realizable value of $2,842, costs associated with the closure and sale of the facility and severance related costs associated with the elimination of approximately 300 union and non-union employees and certain other employee terminations. The distribution facility consists of three separate buildings, of which

two were sold during the current period at a gain of approximately $958. However, an impairment charge of approximately $1,000 was recorded on the remaining property during the current period to properly reflect the amount the Company expects to realize on the sale of such property. These components and the related activity through May 31, 2003 were as follows:

	Asset Write-Down	Wind-Down Costs	Severance and Termination Benefits	Totals
Fiscal Year 2002 Provision	$ 7,870	$ 868	$ 1,065	$ 9,803
Fiscal Year 2002 Activity	(7,870)	--	--	(7,870)
Balance at March 2, 2002	--	868	1,065	1,933
Fiscal Year 2003 Provision	--	--	3,356	3,356
Fiscal Year 2003 Activity	--	(366)	(3,406)	(3,772)
Balance at March 1, 2003	--	502	1,015	1,517
Fiscal Year 2004 Provision	958	--	--	958
Fiscal Year 2004 Activity	(958)	(191)	(176)	(1,325)
Balance at May 31, 2003	$ --	$ 311	$ 839	$ 1,150

NOTE 14 - In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The disclosure provisions of FIN 45 are effective for the Company's first quarter of the year ending February 28, 2004. The adoption of this pronouncement did not have a material impact on the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This standard provides alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS

No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the pro forma effect on reported results of applying the fair value based method for entities that use the intrinsic value method of accounting. The pro forma effect disclosures are also required to be prominently disclosed in interim period financial statements. This statement is effective for financial statements for fiscal years ending after December 15, 2002 and is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002, with earlier application permitted. The Company does not plan a change to the fair value based method of accounting for stock-based employee compensation and has included the disclosure requirements of SFAS No. 148 in the accompanying financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement No. 133 on Derivative Instruments and Hedging Activities", which requires certain contracts to be treated as either derivatives or hybrid instruments, on a consistent basis. SFAS No. 149 is effective for contracts and hedging transactions executed or modified after June 30, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which requires certain financial instruments that were previously presented on the consolidated balance sheets as equity or temporary equity to be presented as liabilities. Such instruments include mandatory redeemable preferred and common stock, and certain options and warrants. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003 and for the first interim period beginning after June 15, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

NOTE 15 - On June 24, 2003, the Company's Board of Directors authorized Amendment No. 1 ("Amendment No. 1") to the Stockholder Rights Plan (the "Plan"). Pursuant to Amendment No. 1, the Plan has been amended to remove an express exception applicable to the Company's current Chairman of the Board for purposes of a person or group acquiring 15% or more of the Company's common stock. In addition, the redemption provisions in the Plan have been amended to provide that, in the event of a "Qualifying Tender Offer", as defined in the Plan, the Rights attributable to such Plan will be redeemed under certain circumstances. On July 6, 2003, the Company's Board of Directors authorized Amendment No. 2 ("Amendment No. 2") to the Plan. Pursuant to Amendment No. 2, the Plan has been amended to exempt the Merger (as defined in the paragraph below) and related transactions from the Rights Agreement and to provide that the Rights will expire immediately prior to the consummation of the Merger.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
FOR THE PERIODS ENDED MAY 31, 2003 AND JUNE 1, 2002
(unaudited)
(amounts in thousands, except share data)

On July 7, 2003, the Company announced that it had entered into an Agreement and Plan of Merger dated as of July 7, 2003 (the "Merger Agreement") with VF Corporation ("VF") and Voyager Acquisition Corporation, VF's wholly owned subsidiary, providing for, among other things, the merger (the "Merger") of Voyager Acquisition Corporation with and into the Company. Pursuant to the Merger Agreement, VF will pay the Company's stockholders $17.00 per share in cash. VF will also pay approximately $14,600, net of taxes, to cash out the Company's employee stock options. The Boards of Directors of the Company and VF have approved the merger. The merger is subject to the Company's stockholder approval, receipt of government approvals and other customary conditions. The merger is not conditioned on financing. In connection with the transaction, VF has obtained commitments from the Company's Chairman and Vice Chairman to vote all Company shares owned by them in favor of the merger, representing a total of approximately 10% of the total shares outstanding.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (unaudited)

RESULTS OF OPERATIONS

For the Three Months Ended May 31, 2003:

Net sales increased 10.6% to $139.2 million in the three months ended May 31, 2003 from $125.9 million in the comparable prior year period. Wholesale segment sales increased 12.4% to $107.1 million from $95.3 million due primarily to strong performances of Nautica Men's Jeans, Nautica Children's, Nautica Women's Sleepwear and Nautica Men's Underwear. Retail segment sales increased 5.0% to $32.1 million from $30.6 million due primarily to sales in the children's line which were up 63.6% from the prior year period as a result of expanding the line to additional outlet stores. In addition, sales from four new Earl Jean stores and two new John Varvatos stores contributed to the increase.

Gross profit, as a percentage of sales, was 42.0%, compared to 44.3% in the comparable prior year period due primarily to an increase in markdowns and allowances in the Company's wholesale businesses coupled with an increase in markdowns in the Nautica outlet division due to price compression.

Selling, general and administrative expenses ("SG&A") increased by $1.1 million to $60.5 million in fiscal 2004 from $59.4 million in fiscal 2003. SG&A, as a percentage of net sales, decreased to 43.4% in fiscal 2004 from 47.2% in fiscal 2003. The decrease as a percentage of net sales is due primarily to leverage gained as a result of higher net sales in the current period. In addition, the prior year period included investments in the Earl Jean Women's and Men's businesses, the development of the Nautica Women's Sportwear line and the expansion of the John Varvatos business into the European market.

During the first quarter of fiscal 2004, the Company recorded a pre-tax special charge of $3.2 million ($2.0 million on an after tax basis) or $0.06 on a per share basis. This charge relates to the Company's decision in the prior

year to transition its Nautica business in Europe to licensing or other arrangements. The charge consists of $2.6 million for the write-down of fixed assets and $0.6 million in wind-down and lease termination costs.

During the first quarter of fiscal 2004, the Company sold two of the three properties it was classifying as held for sale located in Rockland, Maine. The sale resulted in a gain of $1.0 million, and represents a recovery of a portion of the special charge recognized in the fourth quarter of fiscal 2002 for the write-down of the distribution facility in Rockland, Maine. In addition, the remaining property was written down by $1.0 million to properly reflect the amount the Company expects to realize on the sale of such property. The aforementioned gain and write-down are netted and reported in special charges in the Company's consolidated financial statements.

Net royalty income increased by $0.4 million to $2.8 million from $2.4 million in the prior year period. The increase was due primarily to the sales strength in home products, as well as new licenses for women's swimwear and beachwear, and the new fragrance, Nautica Competition, during the current year period.

Investment income decreased by $0.5 million to $0.2 million from $0.7 million in the prior year period. The decrease is due to $0.4 million of income from short-term investments included in the prior year period. During the fourth quarter of fiscal 2003, the Company sold its short-term investments due to poor overall performance.

The provision for income taxes decreased to 37.2% from 37.5% of earnings before income taxes in the comparable prior year period. The decrease is due primarily to a reduction in the overall effective income tax rates.

Net loss for the current year period was $1.6 million compared to $2.6 million in the comparable prior year period as a result of the factors discussed above. Excluding the special charges discussed above, net earnings for the current year period would have been $0.4 million.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended May 31, 2003, the Company generated cash from operating activities of $18.2 million, principally from a decrease in accounts receivable of $24.2 million. Accounts receivable was 15.0% or $9.7 million higher than the prior year period due to a 10.6% or $13.3 million increase in sales. Inventory was 50.3% or $32.0 million higher than the prior year period due to a number of factors including: an increase in replenishment inventory for certain businesses, as it can take six to nine months to produce the product; the expansion of the Nautica Children's business into more of the Company's outlet stores; and the receipt of fall product earlier than in the prior year to support a more timely transition from the summer season.

During the three months ended June 1, 2002, the Company generated cash from operating activities of $31.1 million, principally from a decrease in accounts receivable of $25.2 million. Accounts receivable was 26.3% lower than the same period in the prior year due mainly to the reduction in wholesale shipments in the current year period. Inventory was $61.3 million or 49.1% lower than the same period in the prior year due to the Company's ability to better manage the timing of receipts with customer demand as well as a reduction in its offerings of replenishment styles.

During the three months ended May 31, 2003 and June 1, 2002, the Company's principal investing activities related primarily to the purchase of property, plant and equipment for the Nautica in-store shop program. The Company expects to continue to incur capital expenditures to expand the in-store shop program, and to open additional retail stores.

The Company has a total of $175.0 million in lines of credit with four commercial banks available for short-term borrowings and letters of credit. These lines are collateralized by imported inventory and accounts receivable. At May 31, 2003 and March 1, 2003, letters of credit outstanding under the lines were $77.8 million and $46.5 million, respectively, and there were no short-term borrowings outstanding.

The following is a summary of the Company's contractual obligations for the periods indicated that existed as of May 31, 2003:

	(amounts in millions)				
Contractual Obligations	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
Operating leases	$ 18.7	$ 34.6	$ 29.8	$ 60.3	$143.4
Letters of credit	77.8	--	--	--	77.8
Long-term debt	0.8	1.5	1.5	10.3	14.1
	$ 97.3	$ 36.1	$ 31.3	$ 70.6	$235.3

Historically, the Company has experienced its highest level of sales in the second and third quarters and its lowest level in the first and fourth quarters due to seasonal patterns. In the future, the timing of seasonal shipments may vary by quarter. The Company anticipates that internally generated funds from operations, existing cash balances and the Company's existing credit lines will be sufficient to satisfy its cash requirements.

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CURRENCY FLUCTUATIONS AND INFLATION

The Company contracts production with manufacturers located primarily in Asia. These contracts are denominated in United States dollars. The Company believes that, to date, the effect of fluctuations of the dollar against foreign currencies has not had a material effect on the cost of production or the Company's results of operations. There can be no assurance that costs for the Company's products will not be affected by future fluctuations in the exchange rate between the United States dollar and the local currencies of these manufacturers. Due to the number of currencies involved, the Company cannot quantify the potential effect of such future fluctuations on future income. The Company does not engage in hedging activities with respect to such exchange rate risk.

The Company believes that inflation and the effect of fluctuations of the dollar against foreign currencies have not had a material effect on the cost of imports or the Company's results of operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The disclosure provisions of FIN 45 are effective for the Company's first quarter of the year ending February 28, 2004. The adoption of this pronouncement did not have a material impact on the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." This standard provides alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in annual financial statements about the method of accounting for stock-based employee compensation and the pro forma effect on reported results of applying the fair value based method for entities that use the intrinsic value method of accounting. The pro forma effect disclosures are also required to be prominently disclosed in interim period financial statements. This statement is effective for financial statements for fiscal years ending after December 15, 2002 and is effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002, with earlier application permitted. The Company does not plan a change to the fair value based method of accounting for stock-based employee compensation and has included the disclosure requirements of SFAS No. 148 in the accompanying financial statements.

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement No. 133 on Derivative Instruments and Hedging Activities", which requires certain contracts to be treated as either derivatives or hybrid instruments, on a consistent basis. SFAS No. 149 is effective for contracts and hedging transactions executed or modified after June 30, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity", which requires certain financial instruments that were previously presented on the consolidated balance sheets as equity or temporary equity to be presented as liabilities. Such instruments include mandatory redeemable preferred and common stock, and certain options and warrants. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003 and for the first interim period beginning after June 15, 2003. The Company is currently in the process of evaluating the potential impact that this pronouncement will have on its consolidated financial statements.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles that are generally accepted in the United States of America. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the period. Management continually evaluates its estimates and assumptions including those related to allowances for doubtful accounts, sales returns and allowances, inventory valuation, accrual for markdowns and the

valuation of long-lived assets. Management bases its estimates and assumptions on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Changes in the economic conditions in the retail industry could have an impact on these estimates and the Company's actual results. Management believes that the following may involve a higher degree of judgment or complexity:

Allowances for Doubtful Accounts

In the normal course of business, the Company extends credit, on open account, to its retail store customers, after a credit analysis based on financial and other criteria. The Company maintains allowances for doubtful accounts for estimated losses that result from the inability of its retail store customers to make their required payments. Management bases its allowances through analysis of the aging of accounts receivable at the date of the financial statements, assessments of historical collection trends, and an evaluation of the impact of current economic conditions.

Sales Returns and Allowances

Costs associated with potential returns of merchandise and charge backs are recorded as a reduction to net sales, and are included in the allowance for doubtful accounts. These costs are based upon known returns and allowances, historic trends and the evaluation of the impact of current economic conditions.

Inventory Valuation

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out method for certain wholesale inventories and by the first-in, first-out method for retail and the remaining wholesale inventories. The Company marks down inventory for estimated unmarketable inventory equal to the difference between the cost and the estimated net realizable value of the inventory. Management continually assesses the valuation of inventories by reviewing the costing of inventory, the significance of slow-moving inventory, and the impact of current economic conditions.

Accrual for Markdowns

Costs associated with customer markdowns are recorded as a reduction to net sales, and are included in the allowance for doubtful accounts. These costs result from seasonal negotiations with the Company's retail store customers, as well as historic trends and the evaluation of the impact of current economic conditions.

Valuation of Long-lived Assets

The Company reviews long-lived assets and certain identifiable intangibles held and used for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating the fair value and future benefits of such assets, the Company performs an analysis of the anticipated undiscounted future net cash flows of the individual assets over the remaining amortization period. The Company recognizes an impairment loss if the carrying value of the asset exceeds the expected future cash flows.

RECENT EVENTS

On July 7, 2003, the Company, VF Corporation ("VF"), and Voyager

Acquisition Corporation, a Delaware corporation and a wholly owned subsidiary of VF (the "Merger Subsidiary"), entered into an Agreement and Plan of Merger (the "Merger Agreement," which agreement is incorporated herein by reference as Exhibit 2(b)). The Merger Agreement provides, among other things, for the merger of the Merger Subsidiary with and into the Company (the "Merger"), with the Company remaining as the surviving corporation (the "Surviving Corporation"). The Merger contemplates that all of the issued and outstanding shares of the Company (other than shares held as treasury stock or owned by VF or any subsidiary of VF) will be converted into $17 per share, in cash. VF will also pay approximately $14.6 million, net of taxes, to cash out the Company's employee stock options. The Boards of Directors of the Company and VF have approved the merger. The merger is subject to the Company's stockholder approval, receipt of government approvals and other customary conditions. The merger is not conditioned on financing. In connection with the transaction, VF has obtained commitments from the Company's Chairman and Vice Chairman to vote all Company shares owned by them in favor of the merger, representing a total of approximately 10% of the total shares outstanding. The Merger will become effective at such time as a certificate of merger is duly filed with the Delaware Secretary of State (or at such later time as may be specified in the certificate of merger) (the "Effective Time"). From and after the Effective Time, the Surviving Corporation will possess all the rights, powers, privileges and franchises and be subject to all of the obligations, liabilities, restrictions and disabilities of the Company and the Merger Subsidiary, all as provided under the General Corporation Law of the State of Delaware.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Certain statements in this Form 10-Q and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases, and in oral statements made by or with the approval of authorized personnel constitute "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on the Company's current expectations of future events and are subject to a number of risks and uncertainties that may cause the Company's actual results to differ materially from those described in the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. These factors and uncertainties include, among others: the risk as to the success of the Company's announced merger; the risk that new businesses of the Company will not be integrated successfully; the risk that the Company will experience operational difficulties with its new distribution facility; the overall level of consumer spending on apparel; dependence on sales to a limited number of large department store customers; risks related to extending credit to customers; actions of existing or new competitors and changes in economic, political or health conditions in the markets where the Company sells or sources its products, including with respect to SARS; downturn or generally reduced shopping activity caused by public safety concerns; risks associated with consolidations, restructurings and other ownership changes in the retail industry; changes in trends in the market segments in which the Company competes; risks associated with uncertainty relating to the Company's ability to launch, support and implement new product lines; effects of competition; changes in the costs of raw materials, labor and advertising; the ability to secure and protect trademarks and other intellectual property rights; risks associated with the relocation of Earl Jean, Inc.; the risk that the cost of transitioning the Nautica Europe business to licensing or other key arrangements will be more than anticipated or that the Company will not be able to negotiate acceptable terms; and, the impact that any labor disruption at the Company's ports of entry could have on timely product deliveries. These and other risks and uncertainties are disclosed from time to time in the Company's filings with the Securities and Exchange Commission, including the Company's periodic reports on Forms 10-K and 10-Q, the Company's press releases and in oral statements made by or with the

approval of authorized personnel. The Company assumes no obligation to update any forward-looking statements as a result of new information or future events or developments.

ACCESS TO COMPANY REPORTS ON THE INTERNET

Copies of the Company's filings with the Securities and Exchange Commission (including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K) are available free of charge in the investor relations section of the Company's website at www.nautica.com. The Company's filings are available on the same day they are electronically filed with the SEC.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure about interest rate risk

The Company finances its capital needs through available capital, future earnings, bank lines of credit and its long-term debt which totals $14.1 million, inclusive of its current portion. The Company's exposure to market risk for changes in interest rates are primarily in its investment portfolio and its short and long-term borrowings. The Company, pursuant to investing guidelines, mitigates exposure on its investments by limiting maturity, placing investments with high credit quality issuers and limiting the amount of credit exposure to any one issuer. All of the Company's indebtedness, including borrowings under its $175 million lines of credit and long-term debt, bear interest at variable rates. Accordingly, changes in interest rates would impact the Company's results of operations in future periods. The Company entered into a swap agreement, effective November 30, 2001, to hedge against interest rate fluctuations on its long-term debt. The swap agreement effectively converts the long-term debt from a variable interest rate to a fixed interest rate of 6.32% per annum. The swap contains a knock-out provision that is activated when the three-month LIBOR rate is at or above 7.00%. If the three-month LIBOR rate rises above 7.00%, the swap knocks out and the Company will not receive any payments under the agreement until such time as the three-month LIBOR rate declines below 7.00%.

ITEM 4: CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this Quarterly Report on Form 10-Q, the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation (the "Evaluation") of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rule 13a-14(c) of the Securities Exchange Act of 1934.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is

based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based upon the Evaluation of disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer of the Company have concluded that, subject to the limitations noted above, the Company's disclosure controls and procedures were effective to ensure that material information relating to the Company and the Company's consolidated subsidiaries would be made known to them by others within those entities to allow timely decisions regarding required disclosures.

There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and the Chief Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II

OTHER INFORMATION

Items 1 through 9. - All items are inapplicable except:

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit Index

Exhibit No.

2(a) Asset Purchase Agreement, dated as of April 23, 2001, by and among the Registrant, EJI Acquisition Subsidiary, Inc., Earl Jean, Inc., Benjamin Freiwald and Suzanne Costas Freiwald is incorporated herein by reference to Registrant's Current Report on Form 8-K dated April 30, 2001.

2(b) Agreement and Plan of Merger dated as of July 7, 2003 among Nautica Enterprises, Inc., VF Corporation and Voyager Acquisition Corporation is incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on July 8, 2003.

3(a) Registrant's By-laws as currently in effect are incorporated herein by reference to Registrant's Registration Statement on Form S-1 (Registration No. 33-21998).

3(b) Registrant's Restated Certificate of Incorporation is incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1995, as amended by a Certificate of Amendment incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended May 31, 1996.

3(c)	Certificate of Designations of Series A Junior Participating Preferred Stock of Nautica Enterprises, Inc., in the form as filed with the Secretary of State of the State of Delaware, included as Exhibit A to the Rights Agreement, dated as of November 2, 2001, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, is incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on November 8, 2001.
4(i)(a)	Rights Agreement, dated as of November 2, 2001, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, which includes the Certificate of Designations of Series A Junior Participating Preferred Stock as Exhibit A, form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C, is incorporated herein by reference from the Registrant's Current Report on Form 8-K filed on November 8, 2001.
4(i)(b)	Amendment No. 1 to Rights Agreement, dated as of June 26, 2003, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, is incorporated herein by reference to Exhibit 2 to the Registrant's Current Report on Form 8-K filed on June 26, 2003.
4(i)(c)	Amendment No. 2 to Rights Agreement, dated as of July 6, 2003, between Nautica Enterprises, Inc. and Mellon Investor Services LLC, as Rights Agent, is incorporated herein by reference to Exhibit 3 to the Registrant's Current Report on Form 8-K filed on July 7, 2003.
10(iii)(a)	Registrant's Executive Incentive Stock Option Plan is incorporated herein by reference from the Registrant's Registration Statement on Form S-8 (Registration No. 33-1488), as amended by the Company's Registration Statement on Form S-8 (Registration No. 33-45823).

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10(iii)(b)	Registrant's 1989 Employee Incentive Stock Plan is incorporated herein by reference from the Registrant's Registration Statement on Form S-8 (Registration No. 33-36040).
10(iii)(c)	Registrant's 1996 Stock Incentive Plan is incorporated herein by reference from the Registrant's Registration Statement on Form S-8 (Registration No. 333-55711), as amended and restated in Appendix A to the Registrant's Definitive Proxy Statement filed on June 7, 2002.
10(iii)(d)	Registrant's 1994 Incentive Compensation Plan is incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1997.
10(iii)(e)	Registrant's Deferred Compensation Plan is incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1998.
10(iii)(f)	Option Agreement and Royalty Agreement, each dated July 1, 1987, by and among the Registrant and David Chu are incorporated herein by reference from the Registrant's Registration Statement on Form S-1 (Registration No. 33-21998), and letter agreement dated May 1, 1998 between Mr. Chu and the Registrant is incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1998. Sale and Cancellation Letter Agreement, dated January 7, 2002, between the Registrant and Mr. Chu

is incorporated herein by reference from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended December 1, 2001.

10(iii)(g) Employment Agreement, dated October 1, 1999, by and between the Registrant and John Varvatos, and Split Dollar Agreement, dated May 5, 2000, by and between the Registrant and John Varvatos are incorporated herein by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended March 4, 2000.

99(a) Voting Agreement dated as of July 7, 2003 among VF Corporation, Voyager Acquisition Corporation, Harvey Sanders, the Harvey Sanders Grantor Retained Income Trust and David Chu is incorporated herein by reference to the Registrant's Current Report on Form 8-K filed on July 8, 2003.

99(b) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

99(c) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K, dated May 1, 2003, which furnished a press release dated May 1, 2003 announcing the Company's earnings for the year and quarter ended March 1, 2003.

SIGNATURES

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.

NAUTICA ENTERPRISES, INC.

By: /s/ Harvey Sanders

Harvey Sanders
Chairman of the Board and
President

Date: July 15, 2003

By: /s/ Wayne A. Marino

Wayne A. Marino
Chief Financial Officer
(Principal Financial Officer)

Date: July 15, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Harvey Sanders, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nautica Enterprises, Inc.;

2. Based on my knowledge, this quarterly 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 the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 15, 2003

By: /s/ Harvey Sanders

Harvey Sanders
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Wayne A. Marino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Nautica Enterprises, Inc.;

2. Based on my knowledge, this quarterly 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 the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 15, 2003

By: /s/ Wayne A. Marino

Wayne A. Marino
Chief Financial Officer
(Principal Financial Officer)

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Long-term debt

2,315 2,696

Long-term pension and postretirement liabilities

1,312 1,353

Deferred income taxes

448 448

Income taxes

1,899 2,311

Other liabilities

532 517

Total Liabilities

10,407 11,329

Commitments and contingencies (Note 9)

Equity:

TE Connectivity Ltd. Shareholders' Equity:

Common shares, 439,092,124 shares authorized and issued, CHF 0.57 and CHF 0.97 par value, respectively

193 193

Contributed surplus

6,416 6,837

Accumulated earnings

1,750 1,196

Treasury shares, at cost, 22,310,014 and 16,408,049 shares, respectively

(766) (484)

Accumulated other comprehensive income

134 229

Total TE Connectivity Ltd. shareholders' equity

7,727 7,971

Noncontrolling interests

6 6

Total Equity

7,733 7,977

Total Liabilities and Equity

$18,140 $19,306

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended	
	March 29, 2013	March 30, 2012
	(in millions)	
Cash Flows From Operating Activities:		
Net income	$554	$520
(Income) loss from discontinued operations, net of income taxes	3	(12)
Income from continuing operations	557	508
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Tax sharing (income) expense	216	(13)
Depreciation and amortization	310	279
Deferred income taxes	93	78
Provision for losses on accounts receivable and inventories	39	35
Share-based compensation expense	40	35
Other	34	(2)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	49	(16)
Inventories	(74)	(9)
Inventoried costs on long-term contracts	6	(5)
Prepaid expenses and other current assets	(36)	101
Accounts payable	107	(46)
Accrued and other current liabilities	(52)	(188)
Income taxes	(451)	(67)
Deferred revenue	(15)	(44)
Long-term pension and postretirement liabilities	9	20
Other	7	10
Net cash provided by continuing operating activities	839	676
Net cash provided by (used in) discontinued operating activities	(2)	53
Net cash provided by operating activities	837	729
Cash Flows From Investing Activities:		
Capital expenditures	(253)	(270)
Proceeds from sale of property, plant, and equipment	4	7
Other	17	(7)
Net cash used in continuing investing activities	(232)	(270)
Net cash used in discontinued investing activities		(1)
Net cash used in investing activities	(232)	(271)
Cash Flows From Financing Activities:		
Net increase in commercial paper	50	569
Proceeds from long-term debt		748
Repayment of long-term debt	(714)	
Proceeds from exercise of share options	86	48
Repurchase of common shares	(365)	(17)

Payment of common share dividends and cash distributions to shareholders	(177)	(153)
Other	(2)	40
Net cash provided by (used in) continuing financing activities	(1,122)	1,235
Net cash provided by (used in) discontinued financing activities	2	(52)
Net cash provided by (used in) financing activities	(1,120)	1,183
Effect of currency translation on cash	(1)	7
Net increase (decrease) in cash and cash equivalents	(516)	1,648
Cash and cash equivalents at beginning of period	1,589	1,218
Cash and cash equivalents at end of period	$1,073	$2,866

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of TE Connectivity Ltd. ("TE Connectivity" or the "Company," which may be referred to as "we," "us," or "our") have been prepared in United States Dollars, in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. In management's opinion, the unaudited Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire fiscal year or any subsequent interim period.

The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2013 and fiscal 2012 are to our fiscal years ending September 27, 2013 and September 28, 2012, respectively.

Segment Structure

Effective for the first quarter of fiscal 2013, we reorganized our management and segments to better align the organization around our strategy. We expect the realignment to enable us to better meet our customers' needs and optimize our efficiency. The following represents our current segment structure:

Transportation Solutions this segment consists of our Automotive business;

Network Solutions the Telecom Networks, Data Communications, Enterprise Networks, and Subsea Communications businesses are presented in this segment;

Industrial Solutions this segment contains our Industrial, Aerospace, Defense, and Marine, and Energy businesses; and

Consumer Solutions our Consumer Devices and Appliance businesses are encompassed in this segment.

Reclassifications

We have reclassified certain items on our Condensed Consolidated Financial Statements to conform to the current year presentation.

2. Restructuring and Other Charges, Net

Restructuring and other charges consisted of the following:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Restructuring charges, net	$86	$32	$178	$50
Gain on divestiture	(5)		(5)	

	$81	$32	$173	$50

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

2. Restructuring and Other Charges, Net (Continued)

Restructuring Charges, Net

Charges to operations by segment were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Transportation Solutions	$18	$	$28	$1
Network Solutions	31	24	55	30
Industrial Solutions	21	1	33	9
Consumer Solutions	16	7	62	10
Restructuring charges, net	$86	$32	$178	$50

Activity in our restructuring reserves during the first six months of fiscal 2013 is summarized as follows:

	Balance at September 28, 2012	Charges	Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation	Balance at March 29, 2013
				(in millions)			
Fiscal 2013 Actions:							
Employee severance	$	$171	$	$(26)	$	$(2)	$143
Facility and other exit costs		2		(1)			1
Property, plant, and equipment		23			(23)		
Total		196		(27)	(23)	(2)	144
Fiscal 2012 Actions:							
Employee severance	79	1	(7)	(28)			45
Facility and other exit costs	2	1		(1)			2
Property, plant, and equipment		2			(2)		
Total	81	4	(7)	(29)	(2)		47
Pre-Fiscal 2012 Actions:							
Employee severance	51		(15)	(12)		2	26
Facility and other exit costs	29	1	(1)	(4)		(1)	24
Total	80	1	(16)	(16)		1	50
Total Activity	$161	$201	$(23)	$(72)	$(25)	$(1)	$241

Fiscal 2013 Actions

During fiscal 2013, we initiated a restructuring program associated with headcount reductions and manufacturing site closures impacting all segments. In connection with this program, during the six months ended March 29, 2013, we recorded restructuring charges of $196 million primarily related to employee severance and benefits and fixed assets in connection with exited manufacturing sites' product lines. We expect to complete all restructuring activities commenced in fiscal 2013 by the end of fiscal 2014 and to incur total charges of approximately $232 million. Cash spending related to this program was $27 million in the first six months of fiscal 2013.

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

2. Restructuring and Other Charges, Net (Continued)

The following table summarizes expected, incurred, and remaining charges for the fiscal 2013 program by type:

	Total Expected Charges	Charges Incurred For the Six Months Ended March 29, 2013	Remaining Expected Charges
		(in millions)	
Employee severance	$176	$171	$5
Facility and other exit costs	8	2	6
Property, plant, and equipment	48	23	25
Total	$232	$196	$36

The following table summarizes expected, incurred, and remaining charges for the fiscal 2013 program by segment:

	Total Expected Charges	Charges Incurred For the Six Months Ended March 29, 2013	Remaining Expected Charges
		(in millions)	
Transportation Solutions	$31	$28	$3
Network Solutions	64	61	3
Industrial Solutions	47	40	7
Consumer Solutions	90	67	23
Total	$232	$196	$36

Fiscal 2012 Actions

During fiscal 2012, we initiated a restructuring program resulting in headcount reductions across all segments. Also, we initiated a restructuring program in the Transportation Solutions and Industrial Solutions segments associated with the acquisition of Deutsch Group SAS ("Deutsch"). During the six months ended March 29, 2013 and March 30, 2012, we recorded net restructuring credits of $3 million and charges of $50 million, respectively, primarily related to employee severance and benefits. We do not expect to incur any additional expense related to restructuring programs commenced in fiscal 2012. Cash spending related to these programs was $29 million in the first six months of fiscal 2013.

The following table summarizes expected and incurred charges for fiscal 2012 programs by type:

	Total Expected Charges	Charges Incurred	
		For the Six Months Ended March 29, 2013	For Fiscal 2012
		(in millions)	
Employee severance	$119	$(6)	$125
Facility and other exit costs	4	1	3
Property, plant, and equipment	5	2	3
Total	$128	$(3)	$131

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

2. Restructuring and Other Charges, Net (Continued)

The following table summarizes expected and incurred charges for fiscal 2012 programs by segment:

	Total Expected Charges	Charges Incurred For the Six Months Ended March 29, 2013	For Fiscal 2012
		(in millions)	
Transportation Solutions	$30	$1	$29
Network Solutions	53	(3)	56
Industrial Solutions	25	(1)	26
Consumer Solutions	20		20
Total	$128	$(3)	$131

Pre-Fiscal 2012 Actions

During fiscal 2011, we initiated a restructuring program which was primarily associated with the acquisition of ADC Telecommunications, Inc. ("ADC") and related headcount reductions in the Network Solutions segment. Additionally, we increased reductions-in-force across all segments as a result of economic conditions. During fiscal 2010, we initiated a restructuring program primarily related to headcount reductions in the Transportation Solutions segment. We do not expect to incur any additional expense related to restructuring programs commenced in fiscal 2011 and 2010.

In connection with pre-fiscal 2012 programs, during the six months ended March 29, 2013, we recorded net restructuring credits of $15 million, primarily related to employee severance and benefits. Cash spending related to pre-fiscal 2012 programs was $16 million in the first six months of fiscal 2013.

Restructuring Reserves

Restructuring reserves included on our Condensed Consolidated Balance Sheets were as follows:

	March 29, 2013	September 28, 2012
	(in millions)	
Accrued and other current liabilities	$200	$118
Other liabilities	41	43
Restructuring reserves	$241	$161

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. Discontinued Operations

The following table presents net sales, pre-tax income (loss), pre-tax loss on sale, and income tax (expense) benefit from discontinued operations:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Net sales from discontinued operations	$	$140	$	$279
Pre-tax income (loss) from discontinued operations	$	$(15)	$(1)	$15
Pre-tax loss on sale of discontinued operations	(2)		(4)	
Income tax (expense) benefit	1	5	2	(3)
Income (loss) from discontinued operations, net of income taxes	$(1)	$(10)	$(3)	$12

During fiscal 2012, we sold our Touch Solutions and TE Professional Services businesses. These businesses met the held for sale and discontinued operations criteria and were included in discontinued operations. In the second quarter of fiscal 2012, we recorded a pre-tax impairment charge of $28 million, which is included in income (loss) from discontinued operations, net of income taxes on the Condensed Consolidated Statement of Operations, to write the carrying value of the TE Professional Services business down to its estimated fair value less costs to sell. Prior to reclassification to discontinued operations, the Touch Solutions and TE Professional Services businesses were included in the former Communications and Industrial Solutions segment and the Network Solutions segment, respectively.

On December 27, 2011, the New York Court of Claims entered judgment in our favor in the amount of $25 million, payment of which was received in the second quarter of fiscal 2012, in connection with our former Wireless Systems business's State of New York contract. This judgment resolved all outstanding issues between the parties in this matter. This partial recovery of a previously recognized loss, net of legal fees, is reflected in income (loss) from discontinued operations, net of income taxes on the Condensed Consolidated Statement of Operations for the six months ended March 30, 2012. The Wireless Systems business, which met the held for sale and discontinued operations criteria, was a component of the former Wireless Systems segment.

4. Inventories

Inventories consisted of the following:

	March 29, 2013	September 28, 2012
	(in millions)	
Raw materials	$268	$282
Work in progress	586	573
Finished goods	899	896
Inventoried costs on long-term contracts	50	57
Inventories	$1,803	$1,808

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

5. Goodwill

The changes in the carrying amount of goodwill by segment were as follows[(1)]:

	Transportation Solutions	Network Solutions	Industrial Solutions	Consumer Solutions	Total
			(in millions)		
September 28, 2012[(2)]	$793	$981	$1,876	$658	$4,308
Currency translation and other	(4)	(13)	(10)	(2)	(29)
March 29, 2013[(2)]	$789	$968	$1,866	$656	$4,279

(1) In connection with our change in segment structure, goodwill was re-allocated to reporting units using a relative fair value approach. See Note 1 for additional information regarding our current segment structure.

(2) At March 29, 2013 and September 28, 2012, accumulated impairment losses for the Transportation Solutions, Network Solutions, Industrial Solutions, and Consumer Solutions segments were $2,191 million, $1,236 million, $641 million, and $607 million, respectively.

6. Intangible Assets, Net

Intangible assets were as follows:

	March 29, 2013			September 28, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in millions)			
Intellectual property	$1,144	$(470)	$674	$1,146	$(439)	$707
Customer relationships	652	(67)	585	655	(44)	611
Other	41	(9)	32	76	(42)	34
Total	$1,837	$(546)	$1,291	$1,877	$(525)	$1,352

Intangible asset amortization expense was $28 million and $14 million for the quarters ended March 29, 2013 and March 30, 2012, respectively, and $56 million and $29 million for the six months ended March 29, 2013 and March 30, 2012, respectively.

The estimated aggregate amortization expense on intangible assets is expected to be as follows:

	(in millions)
Remainder of fiscal 2013	$55
Fiscal 2014	111
Fiscal 2015	110
Fiscal 2016	110
Fiscal 2017	110
Fiscal 2018	110
Thereafter	685

Total	$1,291

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. Debt

Debt was as follows:

	March 29, 2013	September 28, 2012
	(in millions)	
6.00% senior notes due 2012	$	$714
5.95% senior notes due 2014	300	300
1.60% senior notes due 2015	250	250
6.55% senior notes due 2017	730	732
4.875% senior notes due 2021	272	274
3.50% senior notes due 2022	498	498
7.125% senior notes due 2037	475	475
3.50% convertible subordinated notes due 2015	89	90
Commercial paper, at a weighted-average interest rate of 0.32% and 0.40%, respectively	350	300
Other	66	78
Total debt[1]	3,030	3,711
Less current maturities of long-term debt[2]	715	1,015
Long-term debt	$2,315	$2,696

(1) Senior notes are presented at face amount and, if applicable, are net of unamortized discount and the effects of fair value hedge-designated interest rate swaps.

(2) The current maturities of long-term debt at March 29, 2013 was comprised of the 5.95% senior notes due 2014, commercial paper, and a portion of amounts shown as other. The current maturities of long-term debt at September 28, 2012 was comprised of the 6.00% senior notes due 2012, commercial paper, and a portion of amounts shown as other.

Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, has a five-year unsecured senior revolving credit facility ("Credit Facility") with total commitments of $1,500 million. This facility expires in June 2016. TEGSA had no borrowings under the Credit Facility at March 29, 2013 and September 28, 2012.

In addition to the Credit Facility, TEGSA is the borrower under the outstanding senior notes and outstanding commercial paper. TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd. Neither TE Connectivity Ltd. nor any of its subsidiaries provides a guarantee as to payment obligations under the 3.50% convertible subordinated notes due 2015 issued by ADC prior to its acquisition in December 2010.

The fair value of our debt, based on indicative valuations, was approximately $3,317 million and $4,034 million at March 29, 2013 and September 28, 2012, respectively.

8. Guarantees

Tax Sharing Agreement

Effective June 29, 2007, we became the parent company of the former electronics businesses of Tyco International Ltd. ("Tyco International"). On June 29, 2007, Tyco International distributed all of our shares, as well as its shares of its former healthcare businesses ("Covidien"), to its common shareholders (the "separation").

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. Guarantees (Continued)

Upon separation, we entered into a Tax Sharing Agreement, under which we share responsibility for certain of our, Tyco International's, and Covidien's income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. We, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of U.S. income tax liabilities that arise from adjustments made by tax authorities to our, Tyco International's, and Covidien's U.S. income tax returns. The effect of the Tax Sharing Agreement is to indemnify us for 69% of certain liabilities settled in cash by us with respect to unresolved pre-separation tax matters. Pursuant to that indemnification, we have made similar indemnifications to Tyco International and Covidien with respect to 31% of certain liabilities settled in cash by the companies relating to unresolved pre-separation tax matters. If any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. We are responsible for all of our own taxes that are not shared pursuant to the Tax Sharing Agreement's sharing formula. In addition, Tyco International and Covidien are responsible for their tax liabilities that are not subject to the Tax Sharing Agreement's sharing formula. Our indemnification created under the Tax Sharing Agreement qualifies as a guarantee of a third party entity's debt under Accounting Standards Codification 460, *Guarantees*.

At March 29, 2013, we had a liability representing the indemnifications made to Tyco International and Covidien pursuant to the Tax Sharing Agreement of $241 million of which $225 million was reflected in other liabilities and $16 million was reflected in accrued and other current liabilities on the Condensed Consolidated Balance Sheet. At September 28, 2012, the liability was $241 million and consisted of $227 million in other liabilities and $14 million in accrued and other current liabilities. The amount reflected in accrued and other current liabilities is our estimated cash obligation under the Tax Sharing Agreement to Tyco International and Covidien in connection with pre-separation tax matters that could be resolved within the next twelve months.

We have assessed the probable future cash payments to Tyco International and Covidien for pre-separation income tax matters pursuant to the terms of the Tax Sharing Agreement and determined that $241 million remains sufficient to satisfy these expected obligations.

Other Matters

In disposing of assets or businesses, we often provide representations, warranties, and/or indemnities to cover various risks including unknown damage to assets, environmental risks involved in the sale of real estate, liability for investigation and remediation of environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not expect that these uncertainties will have a material adverse effect on our results of operations, financial position, or cash flows.

At March 29, 2013, we had outstanding letters of credit and letters of guarantee in the amount of $359 million.

In the normal course of business, we are liable for contract completion and product performance. In the opinion of management, such obligations will not significantly affect our results of operations, financial position, or cash flows.

We generally record estimated product warranty costs when contract revenues are recognized under the percentage-of-completion method for construction related contracts and at the time of sale for products. The estimation is primarily based on historical experience and actual warranty claims. Amounts accrued for warranty claims at March 29, 2013 and September 28, 2012 were $42 million and $48 million, respectively.

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

9. Commitments and Contingencies

TE Connectivity Legal Proceedings

In the ordinary course of business, we are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, employment disputes, disputes on agreements, other commercial disputes, environmental matters, antitrust claims, and tax matters, including non-income tax matters such as value added tax, sales and use tax, real estate tax, and transfer tax. Although it is not feasible to predict the outcome of these proceedings, based upon our experience, current information, and applicable law, we do not expect that the outcome of these proceedings, either individually or in the aggregate, will have a material effect on our results of operations, financial position, or cash flows.

At March 29, 2013, we had a contingent purchase price commitment of $80 million related to our fiscal 2001 acquisition of Com-Net. This represents the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system was completed for and approved by the State of Florida in accordance with guidelines set forth in the contract. Under the terms of the purchase and sale agreement, we do not believe we have any obligation to the sellers. However, the sellers have contested our position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania, which is in the discovery phase. A liability for this contingency has not been recorded on the Condensed Consolidated Financial Statements as we do not believe that any payment is probable or reasonably estimable at this time.

Income Taxes

In connection with the separation, we entered into a Tax Sharing Agreement that generally governs our, Tyco International's, and Covidien's respective rights, responsibilities, and obligations after the distribution with respect to taxes, including ordinary course of business taxes and taxes, if any, incurred as a result of any failure of the distribution of all of our shares or the shares of Covidien to qualify as a tax-free distribution for U.S. federal income tax purposes within the meaning of Section 355 of the Internal Revenue Code (the "Code") or certain internal transactions undertaken in anticipation of the spin-offs to qualify for tax-favored treatment under the Code.

Pursuant to the Tax Sharing Agreement, upon separation, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under the Tax Sharing Agreement, we, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. See Note 8 for additional information regarding the Tax Sharing Agreement.

During fiscal 2007, the Internal Revenue Service ("IRS") concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and issued Revenue Agent Reports that reflect the IRS' determination of proposed tax adjustments for the 1997 through 2000 period. Additionally, the IRS proposed civil fraud penalties against Tyco International arising from alleged actions of former executives in connection with certain intercompany transfers of stock in 1998 and 1999. The penalties were asserted against a prior subsidiary of Tyco International that was distributed to us in connection with the separation. Tyco International appealed certain of the proposed adjustments for the years 1997 through 2000, and Tyco International has now resolved all but one of the matters associated with the proposed tax adjustments, including reaching an agreement with the IRS on the penalty adjustment. In October 2012, the IRS issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the period 1997 through 2000, excluding one issue that remains in dispute as described below. As a result of these developments, in the first six months of fiscal 2013, we recognized an income tax benefit of $331 million and other expense of $231 million pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

9. Commitments and Contingencies (Continued)

The disputed issue involves the tax treatment of certain intercompany debt transactions. The IRS has asserted that certain intercompany loans originating during the period 1997 through 2000 did not constitute debt for U.S. federal income tax purposes and has disallowed related interest deductions recognized on Tyco International's U.S. income tax returns during the period. Tyco International contends that the intercompany financing qualified as debt for U.S. tax purposes and that the interest deductions reflected on the income tax returns are appropriate. The IRS and Tyco International remain unable to resolve this matter through the IRS appeals process. We understand that Tyco International expects to receive statutory notices of deficiency from the IRS in our third quarter of fiscal 2013. Upon receipt of these statutory notices, we expect that Tyco International will commence litigation of this matter with the IRS in U.S. federal court. Based upon relevant facts surrounding the intercompany debt transactions, relevant tax regulations, and applicable case law, we believe that we are adequately reserved for this matter. However, the ultimate outcome is uncertain and if the IRS were to prevail on its assertions, our share of the assessed tax, deficiency interest, and applicable withholding taxes and penalties could have a material adverse impact on our results of operations, financial position, or cash flows.

During the first six months of fiscal 2013, we made payments of $67 million for tax deficiencies related to undisputed tax adjustments for the years 1997 through 2000. Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997 through 2000. Over the next twelve months, we expect net cash receipts of approximately $36 million, inclusive of related indemnification receipts and payments, in connection with these pre-separation tax matters.

The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011.

During fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010.

At March 29, 2013 and September 28, 2012, we have reflected $13 million and $71 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

We continue to believe that the amounts recorded on our Condensed Consolidated Financial Statements relating to the matters discussed above are appropriate. However, the ultimate resolution is uncertain and could result in a material impact to our results of operations, financial position, or cash flows.

Environmental Matters

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of March 29, 2013, we concluded that it was probable that we would incur remedial costs in the range of $13 million to $24 million. As of March 29, 2013, we concluded that the best estimate within this range is $14 million, of which $3 million is included in accrued and other current liabilities and $11 million is included in other liabilities on the Condensed Consolidated Balance Sheet. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Financial Instruments

We use derivative and non-derivative financial instruments to manage certain exposures to foreign currency, interest rate, investment, and commodity risks.

Foreign Exchange Risks

As part of managing the exposure to changes in foreign currency exchange rates, we utilize foreign currency forward and swap contracts, a portion of which are designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on intercompany transactions, accounts receivable, accounts payable, and other cash transactions.

We expect that significantly all of the balance in accumulated other comprehensive income associated with the cash flow hedge-designated instruments addressing foreign exchange risks will be reclassified into the Condensed Consolidated Statements of Operations within the next twelve months.

Interest Rate and Investment Risk Management

We issue debt, as needed, to fund our operations and capital requirements. Such borrowings can result in interest rate exposure. To manage the interest rate exposure, we use interest rate swaps to convert a portion of fixed-rate debt into variable-rate debt. We use forward starting interest rate swaps and options to enter into interest rate swaps ("swaptions") to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt. We also utilize investment swaps to manage earnings exposure on certain non-qualified deferred compensation liabilities.

Hedges of Net Investment

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was $2,062 million and $2,981 million at March 29, 2013 and September 28, 2012, respectively. We reclassified foreign exchange gains of $63 million and $8 million during the quarters ended March 29, 2013 and March 30, 2012, respectively, and gains of $65 million and $60 million during the six months ended March 29, 2013 and March 30, 2012, respectively, to currency translation, a component of accumulated other comprehensive income, offsetting foreign exchange gains or losses attributable to the translation of the net investment.

Commodity Hedges

As part of managing the exposure to certain commodity price fluctuations, we utilize commodity swap contracts designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in prices of commodities used in production.

At March 29, 2013 and September 28, 2012, our commodity hedges had notional values of $266 million and $246 million, respectively. We expect that significantly all of the balance in accumulated other comprehensive income associated with the commodities hedges will be reclassified into the Condensed Consolidated Statements of Operations within the next twelve months.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Financial Instruments (Continued)

Derivative Instrument Summary

The fair value of our derivative instruments is summarized below:

	March 29, 2013		September 28, 2012	
	Fair Value of Asset Positions(1)	Fair Value of Liability Positions(2)	Fair Value of Asset Positions(1)	Fair Value of Liability Positions(2)
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign currency contracts(3)	$	$4	$2	$1
Interest rate swaps	23		26	
Commodity swap contracts(3)	1	15	18	1
Total derivatives designated as hedging instruments	24	19	46	2
Derivatives not designated as hedging instruments:				
Foreign currency contracts(3)	6	5	2	2
Investment swaps	3		1	
Total derivatives not designated as hedging instruments	9	5	3	2
Total derivatives	$33	$24	$49	$4

(1) All derivative instruments in asset positions that mature within one year of the balance sheet date are recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and totaled $10 million and $19 million at March 29, 2013 and September 28, 2012, respectively. All derivative instruments in asset positions that mature more than one year from the balance sheet date are recorded in other assets on the Condensed Consolidated Balance Sheets and totaled $23 million and $30 million at March 29, 2013 and September 28, 2012, respectively.

(2) All derivative instruments in liability positions that mature within one year of the balance sheet date are recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets and totaled $21 million and $4 million at March 29, 2013 and September 28, 2012, respectively. All derivative instruments in liability positions that mature more than one year from the balance sheet date are recorded in other liabilities on the Condensed Consolidated Balance Sheets and totaled $3 million at March 29, 2013; there were no derivatives in other liabilities at September 28, 2012.

(3) Contracts are presented gross without regard to any right of offset that exists.

The effects of derivative instruments designated as fair value hedges on the Condensed Consolidated Statements of Operations were as follows:

	Gain Recognized	
	For the Quarters Ended	For the Six Months Ended
Location		

Derivatives Designated as Fair Value Hedges		March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
		(in millions)			
Interest rate swaps[1]	Interest expense	$1	$1	$2	$3

(1) Certain interest rate swaps designated as fair value hedges were terminated in December 2008. Terminated interest rate swaps resulted in all gains presented in this table. Interest rate swaps in place at March 29, 2013 had no gain or loss recognized on the Condensed Consolidated Statements of Operations during the periods.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Financial Instruments (Continued)

The effects of derivative instruments designated as cash flow hedges on the Condensed Consolidated Statements of Operations for the quarters ended were as follows:

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI (Effective Portion) Amount	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Location	Amount	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded From Effectiveness Testing) Location	Amount
			(in millions)		
For the Quarter Ended March 29, 2013:					
Foreign currency contracts	$(4)	Cost of sales	$	Cost of sales	$
Commodity swap contracts	(14)	Cost of sales	(3)	Cost of sales	
Interest rate swaps[(1)]		Interest expense	(3)	Interest expense	
Total	$(18)		$(6)		$
For the Quarter Ended March 30, 2012:					
Foreign currency contracts	$2	Cost of sales	$(1)	Cost of sales	$
Commodity swap contracts	18	Cost of sales	4	Cost of sales	
Interest rate swaps and swaptions[(1)]	(4)	Interest expense	(3)	Interest expense	
Total	$16		$		$

(1) During the quarter ended March 29, 2013, there were no outstanding interest rate swaps designated as cash flow hedges. During the quarter ended March 30, 2012, we terminated forward starting interest rate swaps and swaptions designated as cash flow hedges for a cash payment of $24 million. Prior to the termination, a loss of $2 million was recorded in other comprehensive income related to the effective portions of the hedges during the period. Also during the quarter ended March 30, 2012, we entered into and terminated an interest rate swap designated as a cash flow hedge, recording a loss of $2 million in other comprehensive income. Amounts recognized as interest expense due to ineffectiveness following the termination of all swaps in fiscal 2012 were not material. Losses reclassified from accumulated other comprehensive income to interest expense during the quarters ended March 29, 2013 and March 30, 2012 include the instruments terminated in January 2012 as well as certain forward starting interest rate swaps designated as cash flow hedges that were terminated in September 2007.

The effects of derivative instruments designated as cash flow hedges on the Condensed Consolidated Statements of Operations for the six months ended were as follows:

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded From Effectiveness Testing)

	Amount	Location	Amount	Location	Amount
			(in millions)		
For the Six Months Ended March 29, 2013:					
Foreign currency contracts	$(4)	Cost of sales	$1	Cost of sales	$
Commodity swap contracts	(31)	Cost of sales		Cost of sales	
Interest rate swaps[(1)]		Interest expense	(5)	Interest expense	
Total	$(35)		$(4)		$
For the Six Months Ended March 30, 2012:					
Foreign currency contracts	$(1)	Cost of sales	$(1)	Cost of sales	$
Commodity swap contracts	14	Cost of sales	14	Cost of sales	
Interest rate swaps and swaptions[(1)]	(5)	Interest expense	(4)	Interest expense	
Total	$8		$9		$

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(1) During the six months ended March 29, 2013, there were no outstanding interest rate swaps designated as cash flow hedges. During the six months ended March 30, 2012, we terminated forward starting interest rate swaps and swaptions designated as cash flow

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Financial Instruments (Continued)

hedges for a cash payment of $24 million. Prior to the termination, a loss of $3 million was recorded in other comprehensive income related to the effective portions of the hedges during the period. Also during the six months ended March 30, 2012, we entered into and terminated an interest rate swap designated as a cash flow hedge, recording a loss of $2 million in other comprehensive income. Amounts recognized as interest expense due to ineffectiveness following the termination of all swaps in fiscal 2012 were not material. Losses reclassified from accumulated other comprehensive income to interest expense during the six months ended March 29, 2013 and March 30, 2012 include the instruments terminated in January 2012 as well as certain forward starting interest rate swaps designated as cash flow hedges that were terminated in September 2007.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations were as follows:

		Gain (Loss) Recognized			
Derivatives not Designated as Hedging Instruments	Location	For the Quarters Ended		For the Six Months Ended	
		March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
		(in millions)			
Foreign currency contracts	Selling, general, and administrative expenses	$2	$11	$1	$(21)
Investment swaps	Selling, general, and administrative expenses	4	4	4	7
Total		$6	$15	$5	$(14)

During the quarter and six months ended March 30, 2012, we incurred gains of $11 million and losses of $21 million, respectively, as a result of marking foreign currency derivatives not designated as hedging instruments to fair value. These gains and losses were principally driven by Euro-denominated foreign currency contracts entered into in anticipation of the acquisition of Deutsch and were offset by gains realized as a result of re-measuring certain Euro-denominated intercompany non-derivative financial instruments to the U.S. Dollar.

11. Fair Value Measurements

Fair value measurements are classified under the following hierarchy:

Level 1 Quoted prices in active markets for identical assets and liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flows methodologies, and similar techniques that use significant unobservable inputs.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Fair Value Measurements (Continued)

Financial assets and liabilities recorded at fair value on a recurring basis were as follows:

Description	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3	Fair Value
	(in millions)			
March 29, 2013:				
Assets:				
Commodity swap contracts[1]	$1	$	$	$1
Interest rate swaps		23		23
Investment swaps		3		3
Foreign currency contracts[1]		6		6
Rabbi trust assets	3	80		83
Total assets at fair value	$4	$112	$	$116
Liabilities:				
Commodity swap contracts[1]	$15	$	$	$15
Foreign currency contracts[1]		9		9
Total liabilities at fair value	$15	$9	$	$24
September 28, 2012:				
Assets:				
Commodity swap contracts[1]	$18	$	$	$18
Interest rate swaps		26		26
Investment swaps		1		1
Foreign currency contracts[1]		4		4
Rabbi trust assets	4	79		83
Total assets at fair value	$22	$110	$	$132
Liabilities:				
Commodity swap contracts[1]	$1	$	$	$1
Foreign currency contracts[1]		3		3
Total liabilities at fair value	$1	$3	$	$4

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(1) Contracts are presented gross without regard to any right of offset that exists. See Note 10 for a reconciliation of amounts to the Condensed Consolidated Balance Sheets.

There have been no changes in the valuation methodologies used for financial assets and liabilities measured at fair value on a recurring basis during fiscal 2013.

The majority of the derivatives that we enter into are valued using over-the-counter quoted market prices for similar instruments. We do not believe that the fair values of these derivative instruments differ materially from the amounts that would be realized upon settlement or

maturity.

As of March 29, 2013 and September 28, 2012, we did not have significant financial assets or liabilities that were measured at fair value on a non-recurring basis or non-financial assets or liabilities that were measured at fair value.

During the second quarter of fiscal 2012, we used significant other observable inputs (level 2) to calculate an impairment charge related to the TE Professional Services business. See Note 3 for additional information.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Fair Value Measurements (Continued)

Other Financial Instruments

Financial instruments other than derivative instruments include cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. These instruments are recorded on our Condensed Consolidated Balance Sheets at book value. For cash and cash equivalents, accounts receivable, and accounts payable, we believe book value approximates fair value due to the short-term nature of these instruments. See Note 7 for disclosure of the fair value of long-term debt. There have been no changes in the valuation methodologies used for other financial instruments during fiscal 2013.

12. Retirement Plans

The net periodic pension benefit cost for all U.S. and non-U.S. defined benefit pension plans was as follows:

	U.S. Plans		Non-U.S. Plans	
	For the Quarters Ended		For the Quarters Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Service cost	$1	$1	$15	$13
Interest cost	12	13	18	19
Expected return on plan assets	(15)	(14)	(18)	(14)
Other[(1)]	9	11	8	6
Net periodic pension benefit cost	$7	$11	$23	$24

	U.S. Plans		Non-U.S. Plans	
	For the Six Months Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Service cost	$3	$3	$30	$26
Interest cost	23	26	36	38
Expected return on plan assets	(30)	(29)	(36)	(27)
Other[(1)]	18	21	16	12
Net periodic pension benefit cost	$14	$21	$46	$49

(1) Other consists primarily of amortization of net actuarial losses.

The net periodic postretirement benefit cost for postretirement benefit plans was insignificant for the quarters and six months ended March 29, 2013 and March 30, 2012.

During the six months ended March 29, 2013, we contributed $50 million to our non-U.S. pension plans and insignificant amounts to our U.S. pension plans and postretirement benefit plans.

13. Income Taxes

We recorded tax provisions of $60 million and $91 million for the quarters ended March 29, 2013 and March 30, 2012, respectively. The provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

13. Income Taxes (Continued)

non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. In addition, the provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the extension of the U.S. research and development credit for fiscal 2012 enacted in January 2013 through the American Taxpayer Relief Act of 2012. The tax provision for the quarter ended March 30, 2012 reflects tax benefits recognized due to the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations.

We recorded an income tax benefit of $185 million and a tax provision of $179 million for the six months ended March 29, 2013 and March 30, 2012, respectively. The benefit for the six months ended March 29, 2013 reflects a $331 million income tax benefit related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. In addition, the provision for the six months ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. The provision for the six months ended March 30, 2012 reflects income tax expense associated with certain non-U.S. tax rate changes enacted during the quarter ended December 30, 2011.

We record accrued interest as well as penalties related to uncertain tax positions as part of the provision for income taxes. As of March 29, 2013, we had recorded $965 million of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheet, of which $963 million was recorded in income taxes and $2 million was recorded in accrued and other current liabilities. As of September 28, 2012, the balance of accrued interest and penalties was $1,335 million, of which $1,299 million was recorded in income taxes and $36 million was recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheet. The decrease in the accrued interest and penalties from fiscal year end 2012 is due mainly to the effective settlement of all undisputed tax matters for the period 1997 through 2000. During the six months ended March 29, 2013, we recognized $300 million of benefit related to interest and penalties on the Condensed Consolidated Statement of Operations.

For tax years 1997 through 2004, Tyco International has resolved all matters, excluding one disputed issue related to the tax treatment of certain intercompany debt transactions. During fiscal 2011, the IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007. Also, during fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. See Note 9 for additional information regarding the status of IRS examinations.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that up to approximately $45 million of unrecognized income tax benefits, excluding the impacts relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Condensed Consolidated Balance Sheet as of March 29, 2013.

14. Other Income (Expense), Net

We recorded net other income of $9 million and $11 million in the quarters ended March 29, 2013 and March 30, 2012, respectively, primarily consisting of income pursuant to the Tax Sharing Agreement with Tyco International and Covidien. See Note 8 for further information regarding the Tax Sharing Agreement.

We recorded net other expense of $217 million and net other income of $12 million in the six months ended March 29, 2013 and March 30, 2012, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net expense in the six months ended March 29, 2013 includes $231 million

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

14. Other Income (Expense), Net (Continued)

related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. See Note 9 for additional information.

15. Earnings Per Share

The weighted-average number of shares outstanding used in the computation of basic and diluted earnings per share were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Weighted-average shares outstanding:				
Basic	420	427	421	426
Dilutive impact of share-based compensation arrangements	4	4	4	4
Diluted	424	431	425	430

Certain share options were not included in the computation of diluted earnings per share because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive. Share options not included in the computation totaled 5 million and 6 million for the quarters ended March 29, 2013 and March 30, 2012, respectively, and 6 million and 11 million for the six months ended March 29, 2013 and March 30, 2012, respectively.

16. Equity

Common Shares

In March 2013, our shareholders reapproved and extended through March 6, 2015 our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles of association, in aggregate not exceeding 50% of the amount of our authorized shares.

Common Shares Held in Treasury

In March 2013, our shareholders approved the cancellation of 10,564,817 shares purchased under our share repurchase program during the period from December 31, 2011 to December 28, 2012. The capital reduction by cancellation of these shares is subject to a notice period and filing with the commercial register and is not yet reflected on the Condensed Consolidated Balance Sheet.

Distribution to Shareholders

We paid a $0.21 cash distribution to shareholders in the form of a capital reduction to the par value of our common shares in each of the first and second quarters of fiscal 2013. These capital reductions reduced the par value of our common shares from 0.97 Swiss Francs ("CHF") (equivalent to $0.86) to CHF 0.57 (equivalent to $0.44).

In March 2013, our shareholders approved a dividend payment to shareholders of CHF 0.96 (equivalent to $1.00) per share out of contributed surplus, payable in four equal quarterly installments of $0.25 per share beginning in the third quarter of fiscal 2013 through the second quarter of fiscal 2014.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

16. Equity (Continued)

Upon approval by the shareholders of a dividend payment or cash distribution in the form of a capital reduction, we record a liability with a corresponding charge to contributed surplus or common shares. At March 29, 2013 and September 28, 2012, the unpaid portion of the dividends and distributions recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled $417 million and $178 million, respectively.

Share Repurchase Program

During the first six months of fiscal 2013, we repurchased approximately 11 million of our common shares for $409 million under our share repurchase authorization. During the first six months of fiscal 2012, we did not purchase any of our common shares. At March 29, 2013, we had $898 million of availability remaining under our share repurchase authorization.

17. Share Plans

Total share-based compensation expense was $19 million and $18 million during the quarters ended March 29, 2013 and March 30, 2012, respectively, and $40 million and $35 million during the six months ended March 29, 2013 and March 30, 2012, respectively. These expenses were primarily included in selling, general, and administrative expenses on the Condensed Consolidated Statements of Operations. As of March 29, 2013, there was $162 million of unrecognized compensation cost related to share-based awards. The cost is expected to be recognized over a weighted-average period of 2.0 years.

During the first quarter of fiscal 2013, we granted 2.8 million share options, 1.5 million restricted share awards, and 0.3 million performance share awards as part of our annual incentive plan grant. The weighted-average grant date fair values for share options, restricted share awards, and performance share awards were $8.57, $34.05, and $34.05, respectively.

Performance share awards, which are generally in the form of performance share units, are granted with pay-out subject to vesting requirements and certain performance conditions that are determined at the time of grant. Based on our performance, the pay-out of performance share units can range from 0% to 200% of the number of units originally granted. Certain employees who receive performance share awards also are granted an opportunity to earn additional performance shares subject to the attainment of additional performance criteria which are set at the time of grant. Attainment of the performance criteria will result in an additional pay-out of performance share units equal to 100% of the performance share units paid out under the original performance share award. The grant date fair value of performance share awards is expensed over the period of performance once achievement of the performance criteria is deemed probable. Recipients of performance share units have no voting rights but do receive dividend equivalents. Performance share awards generally vest after a period of three years as determined by the management development and compensation committee of the board of directors. There were no performance share awards outstanding at September 28, 2012.

As of March 29, 2013, we had 26 million shares available for issuance under our stock and incentive plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, as amended and restated, is the primary plan.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

17. Share Plans (Continued)

Share-Based Compensation Assumptions

The weighted-average assumptions we used in the Black-Scholes-Merton option pricing model for the options granted as part of our annual incentive plan grant were as follows:

Expected share price volatility	34%
Risk free interest rate	0.9%
Expected annual dividend per share	$0.84
Expected life of options (in years)	6.0

18. Segment Data

Effective for the first quarter of fiscal 2013, we reorganized our management and segments to better align the organization around our strategy. See Note 1 for additional information regarding our segment structure.

The following segment information reflects our current segment reporting structure. Prior period segment results have been restated to conform to the current segment structure.

Net sales by segment was as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Transportation Solutions	$1,385	$1,274	$2,649	$2,505
Network Solutions	725	815	1,459	1,617
Industrial Solutions	736	711	1,436	1,396
Consumer Solutions	419	449	855	901
Total[(1)]	$3,265	$3,249	$6,399	$6,419

(1) Intersegment sales were not material and were recorded at selling prices that approximate market prices.

Operating income by segment was as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Transportation Solutions	$241	$196	$433	$380
Network Solutions	19	53	55	112
Industrial Solutions	78	104	148	194
Consumer Solutions	21	32	16	60
Total	$359	$385	$652	$746

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

18. Segment Data (Continued)

Segment assets and a reconciliation of segment assets to total assets were as follows:

	March 29, 2013	September 28, 2012
	(in millions)	
Transportation Solutions	$2,833	$2,877
Network Solutions	1,752	1,857
Industrial Solutions	1,516	1,549
Consumer Solutions	1,030	1,081
Total segment assets[(1)]	7,131	7,364
Other current assets	1,847	2,352
Other non-current assets	9,162	9,590
Total assets	$18,140	$19,306

(1) Segment assets are comprised of accounts receivable, inventories, and property, plant, and equipment.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A.

TEGSA, a Luxembourg company and our 100%-owned subsidiary, is a holding company that owns, directly or indirectly, all of our operating subsidiaries. TEGSA is the obligor under our senior notes, commercial paper, and Credit Facility, which are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd. The following tables present condensed consolidating financial information for TE Connectivity Ltd., TEGSA, and all other subsidiaries that are not providing a guarantee of debt but which represent assets of TEGSA, using the equity method of accounting.

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$3,265	$	$3,265
Cost of sales			2,213		2,213
Gross margin			1,052		1,052
Selling, general, and administrative expenses	33	2	403		438
Research, development, and engineering expenses			171		171
Acquisition and integration costs			3		3
Restructuring and other charges, net			81		81
Operating income (loss)	(33)	(2)	394		359
Interest income			5		5
Interest expense		(34)	(1)		(35)
Other income, net			9		9
Equity in net income of subsidiaries	315	337		(652)	
Equity in net loss of subsidiaries from discontinued operations	(1)	(1)		2	
Intercompany interest and fees	(4)	14	(10)		
Income from continuing operations before income taxes	277	314	397	(650)	338
Income tax expense			(60)		(60)
Income from continuing operations	277	314	337	(650)	278
Loss from discontinued operations, net of income taxes			(1)		(1)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	277	314	336	(650)	277
Other comprehensive loss	(122)	(122)	(124)	246	(122)
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$155	$192	$212	$(404)	$155

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended March 30, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$3,249	$	$3,249
Cost of sales			2,228		2,228
Gross margin			1,021		1,021
Selling, general, and administrative expenses, net	39	(50)	438		427
Research, development, and engineering expenses			173		173
Acquisition costs			4		4
Restructuring and other charges, net			32		32
Operating income (loss)	(39)	50	374		385
Interest income			7		7
Interest expense		(43)	(1)		(44)
Other income, net			11		11
Equity in net income of subsidiaries	309	285		(594)	
Equity in net loss of subsidiaries of discontinued operations	(10)	(10)		20	
Intercompany interest and fees	(3)	17	(14)		
Income from continuing operations before income taxes	257	299	377	(574)	359
Income tax expense			(91)		(91)
Income from continuing operations	257	299	286	(574)	268
Loss from discontinued operations, net of income taxes			(10)		(10)
Net income	257	299	276	(574)	258
Less: net income attributable to noncontrolling interests			(1)		(1)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	257	299	275	(574)	257
Other comprehensive income	139	139	140	(279)	139
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$396	$438	$415	$(853)	$396

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Six Months Ended March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$6,399	$	$6,399
Cost of sales			4,358		4,358
Gross margin			2,041		2,041
Selling, general, and administrative expenses	74	3	789		866
Research, development, and engineering expenses			342		342
Acquisition and integration costs			8		8
Restructuring and other charges, net			173		173
Operating income (loss)	(74)	(3)	729		652
Interest income			9		9
Interest expense		(68)	(4)		(72)
Other expense, net			(217)		(217)
Equity in net income of subsidiaries	638	682		(1,320)	
Equity in net loss of subsidiaries from discontinued operations	(3)	(3)		6	
Intercompany interest and fees	(7)	27	(20)		
Income from continuing operations before income taxes	554	635	497	(1,314)	372
Income tax benefit			185		185
Income from continuing operations	554	635	682	(1,314)	557
Loss from discontinued operations, net of income taxes			(3)		(3)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	554	635	679	(1,314)	554
Other comprehensive loss	(95)	(95)	(100)	195	(95)
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$459	$540	$579	$(1,119)	$459

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Six Months Ended March 30, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$6,419	$	$6,419
Cost of sales			4,455		4,455
Gross margin			1,964		1,964
Selling, general, and administrative expenses, net	55	(49)	804		810
Research, development, and engineering expenses			350		350
Acquisition costs		2	6		8
Restructuring and other charges, net			50		50
Operating income (loss)	(55)	47	754		746
Interest income			12		12
Interest expense		(80)	(3)		(83)
Other income, net			12		12
Equity in net income of subsidiaries	565	565		(1,130)	
Equity in net income of subsidiaries of discontinued operations	12	12		(24)	
Intercompany interest and fees	(5)	33	(28)		
Income from continuing operations before income taxes	517	577	747	(1,154)	687
Income tax expense			(179)		(179)
Income from continuing operations	517	577	568	(1,154)	508
Income from discontinued operations, net of income taxes			12		12
Net income	517	577	580	(1,154)	520
Less: net income attributable to noncontrolling interests			(3)		(3)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	517	577	577	(1,154)	517
Other comprehensive loss	(39)	(39)	(38)	77	(39)
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$478	$538	$539	$(1,077)	$478

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Balance Sheet (UNAUDITED)
As of March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Assets					
Current Assets:					
Cash and cash equivalents	$	$	$1,073	$	$1,073
Accounts receivable, net			2,214		2,214
Inventories			1,803		1,803
Intercompany receivables	21		32	(53)	
Prepaid expenses and other current assets	19	2	465		486
Deferred income taxes			288		288
Total current assets	40	2	5,875	(53)	5,864
Property, plant, and equipment, net			3,114		3,114
Goodwill			4,279		4,279
Intangible assets, net			1,291		1,291
Deferred income taxes			2,339		2,339
Investment in subsidiaries	8,215	17,398		(25,613)	
Intercompany loans receivable	11	3,222	9,524	(12,757)	
Receivable from Tyco International Ltd. and Covidien plc			963		963
Other assets		37	253		290
Total Assets	$8,266	$20,659	$27,638	$(38,423)	$18,140
Liabilities and Equity					
Current Liabilities:					
Current maturities of long-term debt	$	$650	$65	$	$715
Accounts payable			1,348		1,348
Accrued and other current liabilities	497	49	1,186		1,732
Deferred revenue			106		106
Intercompany payables	32		21	(53)	
Total current liabilities	529	699	2,726	(53)	3,901
Long-term debt		2,225	90		2,315
Intercompany loans payable	4	9,520	3,233	(12,757)	
Long-term pension and postretirement liabilities			1,312		1,312
Deferred income taxes			448		448
Income taxes			1,899		1,899
Other liabilities			532		532
Total Liabilities	533	12,444	10,240	(12,810)	10,407
Total Equity	7,733	8,215	17,398	(25,613)	7,733
Total Liabilities and Equity	$8,266	$20,659	$27,638	$(38,423)	$18,140

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Balance Sheet (UNAUDITED)
As of September 28, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Assets					
Current Assets:					
Cash and cash equivalents	$	$	$1,589	$	$1,589
Accounts receivable, net	1		2,342		2,343
Inventories			1,808		1,808
Intercompany receivables	16		29	(45)	
Prepaid expenses and other current assets	2	1	471		474
Deferred income taxes			289		289
Total current assets	19	1	6,528	(45)	6,503
Property, plant, and equipment, net			3,213		3,213
Goodwill			4,308		4,308
Intangible assets, net			1,352		1,352
Deferred income taxes			2,460		2,460
Investment in subsidiaries	8,192	17,341		(25,533)	
Intercompany loans receivable	11	2,779	8,361	(11,151)	
Receivable from Tyco International Ltd. and Covidien plc			1,180		1,180
Other assets		40	250		290
Total Assets	$8,222	$20,161	$27,652	$(36,729)	$19,306
Liabilities and Equity					
Current Liabilities:					
Current maturities of long-term debt	$	$1,014	$1	$	$1,015
Accounts payable	2		1,290		1,292
Accrued and other current liabilities	210	70	1,296		1,576
Deferred revenue			121		121
Intercompany payables	29		16	(45)	
Total current liabilities	241	1,084	2,724	(45)	4,004
Long-term debt		2,529	167		2,696
Intercompany loans payable	4	8,356	2,791	(11,151)	
Long-term pension and postretirement liabilities			1,353		1,353
Deferred income taxes			448		448
Income taxes			2,311		2,311
Other liabilities			517		517
Total Liabilities	245	11,969	10,311	(11,196)	11,329
Total Equity	7,977	8,192	17,341	(25,533)	7,977

Total Liabilities and Equity	$8,222	$20,161	$27,652	$(36,729)	$19,306

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Cash Flows (UNAUDITED)
For the Six Months Ended March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Cash Flows From Operating Activities:					
Net cash provided by (used in) continuing operating activities	$(68)	$(62)	$969	$	$839
Net cash used in discontinued operating activities			(2)		(2)
Net cash provided by (used in) operating activities	(68)	(62)	967		837
Cash Flows From Investing Activities:					
Capital expenditures			(253)		(253)
Proceeds from sale of property, plant, and equipment	1		3		4
Change in intercompany loans		721		(721)	
Other			17		17
Net cash provided by (used in) investing activities	1	721	(233)	(721)	(232)
Cash Flows From Financing Activities:					
Changes in parent company equity[(1)]	613	5	(618)		
Net increase in commercial paper		50			50
Repayment of long-term debt		(714)			(714)
Proceeds from exercise of share options			86		86
Repurchase of common shares	(365)				(365)
Payment of cash distributions to shareholders	(181)		4		(177)
Loan borrowing with parent			(721)	721	
Other			(2)		(2)
Net cash provided by (used in) continuing financing activities	67	(659)	(1,251)	721	(1,122)
Net cash provided by discontinued financing activities			2		2
Net cash provided by (used in) financing activities	67	(659)	(1,249)	721	(1,120)
Effect of currency translation on cash			(1)		(1)
Net decrease in cash and cash equivalents			(516)		(516)
Cash and cash equivalents at beginning of period			1,589		1,589
Cash and cash equivalents at end of period	$	$	$1,073	$	$1,073

(1)

Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Cash Flows (UNAUDITED)
For the Six Months Ended March 30, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Cash Flows From Operating Activities:					
Net cash provided by (used in) continuing operating activities	$(70)	$(16)	$762	$	$676
Net cash provided by discontinued operating activities			53		53
Net cash provided by (used in) operating activities	(70)	(16)	815		729
Cash Flows From Investing Activities:					
Capital expenditures			(270)		(270)
Proceeds from sale of property, plant, and equipment			7		7
Change in intercompany loans	(16)	(810)		826	
Other			(7)		(7)
Net cash used in continuing investing activities	(16)	(810)	(270)	826	(270)
Net cash used in discontinued investing activities			(1)		(1)
Net cash used in investing activities	(16)	(810)	(271)	826	(271)
Cash Flows From Financing Activities:					
Changes in parent company equity[1]	261	(483)	222		
Net increase in commercial paper		569			569
Proceeds from long-term debt		748			748
Proceeds from exercise of share options			48		48
Repurchase of common shares	(17)				(17)
Payment of common share dividends	(158)		5		(153)
Loan borrowing with parent			826	(826)	
Other		(8)	48		40
Net cash provided by continuing financing activities	86	826	1,149	(826)	1,235
Net cash used in discontinued financing activities			(52)		(52)
Net cash provided by financing activities	86	826	1,097	(826)	1,183
Effect of currency translation on cash			7		7
Net increase in cash and cash equivalents			1,648		1,648
Cash and cash equivalents at beginning of period			1,218		1,218
Cash and cash equivalents at end of period	$	$	$2,866	$	$2,866

(1) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying notes included elsewhere in this Quarterly Report. The following discussion may contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements as a result of many factors, including but not limited to those under the heading "Forward-Looking Information" and "Part II. Item 1A. Risk Factors."

Our Condensed Consolidated Financial Statements have been prepared in United States Dollars, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Organic net sales growth and free cash flow are non-GAAP financial measures which are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe these non-GAAP financial measures, together with GAAP financial measures, provide useful information to investors because they reflect the financial measures that management uses in evaluating the underlying results of our operations. See "Non-GAAP Financial Measures" for more information about these non-GAAP financial measures, including our reasons for including the measures and material limitations with respect to the usefulness of the measures.

Overview

TE Connectivity Ltd. ("TE Connectivity" or the "Company", which may be referred to as "we," "us," or "our") is a world leader in connectivity. We design and manufacture products at the heart of electronic connections for a broad array of industries including automotive, energy and industrial, broadband communications, consumer devices, healthcare, and aerospace and defense. We help our customers solve the need for more energy efficiency, always-on communications, and ever-increasing productivity.

As discussed in Note 1 to the Condensed Consolidated Financial Statements, effective for the first quarter of fiscal 2013, we reorganized our management and segments to align the organization around our strategy. We now operate through four reportable segments: Transportation Solutions, Network Solutions, Industrial Solutions, and Consumer Solutions. Prior period segment results have been restated to conform to the current segment reporting structure.

Our business and operating results have been and will continue to be affected by global economic conditions. Our sales are dependent on certain industry end markets that are impacted by consumer as well as industrial and infrastructure spending, and our operating results can be affected by changes in demand in those markets. Overall, our net sales were flat in the second quarter and first six months of fiscal 2013 as compared to the same periods of fiscal 2012. On an organic basis, net sales decreased 4.0% and 4.2% in the second quarter and first six months of fiscal 2013, respectively, as compared to the same periods of fiscal 2012. On an organic basis, we experienced declines in our sales into industrial- and infrastructure-based markets, primarily as a result of weakness in the industrial and subsea communications end markets in our Industrial Solutions and Network Solutions segments, respectively. Also, on an organic basis, our sales into consumer-based markets were flat. Increases in the automotive end market in the Transportation Solutions segment were offset by declines in the consumer devices and appliance end markets in the Consumer Solutions segment. The acquisition of Deutsch Group SAS ("Deutsch") in April 2012 benefited the automotive and aerospace, defense, and marine end markets in the Transportation Solutions and Industrial Solutions segments, respectively. In the second quarter and first six months of fiscal 2013, Deutsch contributed net sales of $172 million and $320 million, respectively.

Outlook

Net sales in the third quarter of fiscal 2013 are expected to be between $3.325 billion and $3.425 billion. This reflects a decrease in net sales in the Consumer Solutions and Network Solutions segments and, to a lesser degree, the Industrial Solutions segment, partially offset by an increase in net sales in the Transportation Solutions

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segment, as compared to the third quarter of fiscal 2012. Global automotive production in the third quarter of fiscal 2013 is expected to increase approximately 2% relative to the same period of fiscal 2012. During the third quarter of fiscal 2013, we expect continued weakness in the data communications, industrial, appliance, consumer devices, and telecom networks end markets. Also, we expect lower levels of project activity in the subsea communications end market as compared to the third quarter of fiscal 2012. In the third quarter of fiscal 2013, we expect diluted earnings per share to be in the range of $0.65 to $0.69 per share.

For fiscal 2013, we expect net sales to be between $13.075 billion and $13.375 billion, reflecting expected sales increases in the Transportation Solutions segment offset by decreases in the Network Solutions and Consumer Solutions segments from fiscal 2012 levels. We expect our sales into the automotive end market to benefit from an anticipated increase in global automotive production of approximately 2% from fiscal 2012 levels. We expect diluted earnings per share to be in the range of $2.80 to $2.92 per share for fiscal 2013.

The above outlook is based on foreign exchange rates and commodity prices that are consistent with current levels.

We are monitoring the current economic environment and its potential effects on our customers and on the end markets we serve. Additionally, we continue to closely manage our costs in order to respond to changing conditions. We are also managing our capital resources and monitoring capital availability to ensure that we have sufficient resources to fund our future capital needs. (See further discussion in "Liquidity and Capital Resources.")

Restructuring

We plan to continue to simplify our global manufacturing footprint by migrating facilities from higher-cost to lower-cost countries, consolidating within countries, and transferring product lines to lower-cost countries. These initiatives are designed to help us maintain our competitiveness in the industry, improve our operating leverage, and position us for profitability growth in the years ahead. In connection with these initiatives and in response to market conditions, we incurred net restructuring charges of approximately $178 million during the first six months of fiscal 2013 and expect to incur net restructuring charges of approximately $275 million during fiscal 2013. Cash spending related to restructuring was $72 million during the first six months of fiscal 2013, and we expect total spending, which will be funded with cash from operations, to be approximately $180 million in fiscal 2013. Annualized cost savings related to these actions are expected to be approximately $100 million and are expected to be realized by the end of fiscal 2015. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses.

Results of Operations

Consolidated Operations

Our results of operations were influenced by the following key business factors during the periods discussed in this report:

Raw material prices. We expect to purchase approximately 168 million pounds of copper, 129,000 troy ounces of gold, and 2.5 million troy ounces of silver in fiscal 2013. Prices continue to fluctuate. The following table sets forth the average prices incurred related to copper, gold, and silver during the periods presented:

		For the Quarters Ended		For the Six Months Ended	
	Measure	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Copper	Lb.	$3.58	$3.98	$3.58	$3.94
Gold	Troy oz.	$1,663	$1,596	$1,672	$1,576
Silver	Troy oz.	$30.83	$36.41	$31.23	$34.94

Foreign exchange. Approximately 53% of our net sales are invoiced in currencies other than the U.S. Dollar. Our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. Dollar, as compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. Dollars at the end of each fiscal period.

Net Sales. Net sales increased $16 million, or 0.5%, to $3,265 million in the second quarter of fiscal 2013 as compared to $3,249 million in the second quarter of fiscal 2012. On an organic basis, net sales decreased $133 million, or 4.0%, in the second quarter of fiscal 2013 from the same period of fiscal 2012 as increases in the Transportation Solutions segment were more than offset by declines in the Network Solutions, Industrial Solutions, and Consumer Solutions segments. Foreign currency exchange rates negatively affected net sales by $26 million, or 0.9%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. Deutsch, which was acquired on April 3, 2012, contributed net sales of $172 million in the second quarter of fiscal 2013.

In the first six months of fiscal 2013, net sales decreased $20 million, or 0.3%, to $6,399 million from $6,419 million in the first six months of fiscal 2012. On an organic basis, net sales decreased $272 million, or 4.2%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 as a result of declines in the Network Solutions and Industrial Solutions segments, and to a lesser degree, the Consumer Solutions segment partially offset by an increase in the Transportation Solutions segment. Foreign currency exchange rates negatively affected net sales by $70 million, or 1.1%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. Deutsch contributed net sales of $320 million in the first six months of fiscal 2013.

The following table sets forth the percentage of our total net sales by geographic region:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	**March 30, 2012**	**March 29, 2013**	**March 30, 2012**
Europe/Middle East/Africa (EMEA)	35%	35%	34%	34%
Asia-Pacific	33	33	34	34
Americas	32	32	32	32
Total	100%	100%	100%	100%

The following table provides an analysis of the change in our net sales by geographic region:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						**Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012**					
	Organic[1]		**Translation[2]**	**Acquisition/ Divestiture**	**Total**		**Organic[1]**		**Translation[2]**	**Acquisition/ Divestiture**	**Total**	
	($ in millions)											
EMEA	$(68)	(5.9)%	$7	$78	$17	1.5%	$(121)	(5.5)%	$(34)	$148	$(7)	(0.3)%
Asia-Pacific	(3)	(0.2)	(23)	15	(11)	(1.0)	(68)	(3.1)	(21)	24	(65)	(2.9)
Americas	(62)	(6.0)	(10)	82	10	1.0	(83)	(4.1)	(15)	150	52	2.6
Total	$(133)	(4.0)%	$(26)	$175	$16	0.5%	$(272)	(4.2)%	$(70)	$322	$(20)	(0.3)%

(1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

(2) Represents the change in net sales resulting from changes in foreign currency exchange rates.

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The following table sets forth the percentage of our total net sales by segment:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Transportation Solutions	42%	39%	41%	39%
Network Solutions	22	25	23	25
Industrial Solutions	23	22	23	22
Consumer Solutions	13	14	13	14
Total	100%	100%	100%	100%

The following table provides an analysis of the change in our net sales by segment:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[1]		Translation[2]	Acquisition/ Divestiture	Total		Organic[1]		Translation[2]	Acquisition/ Divestiture	Total	
	($ in millions)											
Transportation Solutions	$32	2.5%	$(11)	$90	$111	8.7%	$20	0.8%	$(36)	$160	$144	5.7%
Network Solutions	(89)	(10.9)	(4)	3	(90)	(11.0)	(152)	(9.4)	(8)	2	(158)	(9.8)
Industrial Solutions	(53)	(7.4)	(4)	82	25	3.5	(107)	(7.7)	(13)	160	40	2.9
Consumer Solutions	(23)	(5.1)	(7)		(30)	(6.7)	(33)	(3.7)	(13)		(46)	(5.1)
Total	$(133)	(4.0)%	$(26)	$175	$16	0.5%	$(272)	(4.2)%	$(70)	$322	$(20)	(0.3)%

(1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

(2) Represents the change in net sales resulting from changes in foreign currency exchange rates.

Gross Margin. Gross margin increased $31 million to $1,052 million in the second quarter of fiscal 2013 from $1,021 million in the second quarter of fiscal 2012. In the first six months of fiscal 2013, gross margin increased $77 million to $2,041 million as compared to $1,964 million in the first six months of fiscal 2012. The increases in gross margin resulted primarily from manufacturing productivity gains and, to a lesser degree, lower material costs, partially offset by price erosion. In the second quarter of fiscal 2013, gross margin as a percentage of net sales increased to 32.2% from 31.4% in the same period of fiscal 2012. Gross margin as a percentage of net sales increased to 31.9% in the first six months of fiscal 2013 from 30.6% in the same period of fiscal 2012.

Selling, General, and Administrative Expenses. In the second quarter of fiscal 2013, selling, general, and administrative expenses increased $11 million to $438 million from $427 million in the second quarter of fiscal 2012. Selling, general, and administrative expenses increased $56 million to $866 million in the first six months of fiscal 2013 as compared to $810 million in the same period of fiscal 2012. Additional selling, general, and administrative expenses of Deutsch were partially offset by expense reductions achieved through cost control measures.

Acquisition and Integration Costs. In connection with the acquisition of Deutsch, we incurred acquisition and integration costs of $3 million and $4 million during the second quarters of fiscal 2013 and 2012, respectively. We incurred acquisition and integration costs of $8 million during both the first six months of fiscal 2013 and 2012.

Restructuring and Other Charges, Net. Net restructuring and other charges were $81 million in the second quarter of fiscal 2013 as compared to $32 million in the same period of fiscal 2012. Net restructuring and other charges were $173 million in the first six months of

fiscal 2013 as compared to $50 million the first six months of fiscal 2012. During fiscal 2013, we initiated a restructuring program associated with headcount reductions and manufacturing site closures impacting all segments. During fiscal 2012, we initiated a restructuring program resulting in headcount reductions across all segments. Also, we initiated a restructuring program associated with the acquisition of Deutsch. See Note 2 to the Condensed Consolidated Financial Statements for additional information regarding net restructuring and other charges.

Operating Income. In the second quarter of fiscal 2013, operating income was $359 million as compared to $385 million in the second quarter of fiscal 2012. Results for the second quarter of fiscal 2013 included $81 million of net restructuring and other charges and $3 million of acquisition and integration costs. Results for the second quarter of fiscal 2012 included $32 million of net restructuring and other charges and $4 million of acquisition costs. Excluding these items, operating income increased in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012.

Operating income was $652 million and $746 million in the first six months of fiscal 2013 and 2012, respectively. Results for the first six months of fiscal 2013 included $173 million of net restructuring and other charges and $8 million of acquisition and integration costs. Results for the first six months of fiscal 2012 included $50 million of net restructuring and other charges and $8 million of acquisition costs. Excluding these items, operating income increased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012.

Non-Operating Items

Other Income (Expense), Net

We recorded net other income of $9 million and $11 million in the quarters ended March 29, 2013 and March 30, 2012, respectively, primarily consisting of income pursuant to the Tax Sharing Agreement with Tyco International Ltd. ("Tyco International") and Covidien plc ("Covidien"). See Note 8 to the Condensed Consolidated Financial Statements for further information regarding the Tax Sharing Agreement.

We recorded net other expense of $217 million and net other income of $12 million in the six months ended March 29, 2013 and March 30, 2012, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net expense in the six months ended March 29, 2013 includes $231 million related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. See Note 9 to the Condensed Consolidated Financial Statements for additional information.

Income Taxes

We recorded tax provisions of $60 million and $91 million for the quarters ended March 29, 2013 and March 30, 2012, respectively. The provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. In addition, the provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the extension of the U.S. research and development credit for fiscal 2012 enacted in January 2013 through the American Taxpayer Relief Act of 2012. The tax provision for the quarter ended March 30, 2012 reflects tax benefits recognized due to the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations.

We recorded an income tax benefit of $185 million and a tax provision of $179 million for the six months ended March 29, 2013 and March 30, 2012, respectively. The benefit for the six months ended March 29, 2013 reflects a $331 million income tax benefit related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. In addition, the provision for the six months ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. The provision for the six months ended March 30, 2012 reflects income tax expense associated with certain non-U.S. tax rate changes enacted during the quarter ended December 30, 2011.

Income (Loss) from Discontinued Operations, Net of Income Taxes

Loss from discontinued operations was $1 million and $10 million in the second quarters of fiscal 2013 and 2012, respectively. In the first six months of fiscal 2013 and 2012, loss from discontinued operations was $3 million and income from discontinued operations was $12 million, respectively.

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During fiscal 2012, we sold our Touch Solutions and TE Professional Services businesses. These businesses met the held for sale and discontinued operations criteria and were included in discontinued operations. In the second quarter of fiscal 2012, we recorded a pre-tax impairment charge of $28 million, which is included in income (loss) from discontinued operations, net of income taxes on the Condensed Consolidated Statement of Operations, to write the carrying value of the TE Professional Services business down to its estimated fair value less costs to sell.

On December 27, 2011, the New York Court of Claims entered judgment in our favor in the amount of $25 million, payment of which was received in the second quarter of fiscal 2012, in connection with our former Wireless Systems business's State of New York contract. This judgment resolved all outstanding issues between the parties in this matter. This partial recovery of a previously recognized loss, net of legal fees, is reflected in income (loss) from discontinued operations, net of income taxes on the Condensed Consolidated Statement of Operations for the six months ended March 30, 2012.

See Note 3 to the Condensed Consolidated Financial Statements for additional information regarding discontinued operations.

Results of Operations by Segment

Transportation Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	($ in millions)			
Net sales	$1,385	$1,274	$2,649	$2,505
Operating income	$241	$196	$433	$380
Operating margin	17.4%	15.4%	16.3%	15.2%

The following table provides an analysis of the change in the Transportation Solutions segment's net sales by primary industry end market[1]:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[2]		Translation[3]	Acquisition	Total		Organic[2]		Translation[3]	Acquisition	Total	
	($ in millions)											
Automotive	$32	2.5%	$(11)	$90	$111	8.7%	$20	0.8%	$(36)	$160	$144	5.7%

(1) Industry end market information is presented consistently with our internal management reporting and may be periodically revised as management deems necessary.

(2) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

(3) Represents the change in net sales resulting from changes in foreign currency exchange rates.

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

Net sales in our Transportation Solutions segment increased $111 million, or 8.7%, to $1,385 million in the second quarter of fiscal 2013 from $1,274 million in the second quarter of fiscal 2012. Organic net sales increased by $32 million, or 2.5%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $11 million, or 0.9%, in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. Deutsch contributed net sales of $90 million in the second quarter of fiscal 2013.

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In the automotive end market, our organic net sales increased 2.5% in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. The increase was due primarily to growth of 8.1% in the Americas region and 4.0% in the Asia-Pacific region, partially offset by declines of 1.2% in the EMEA region. Growth in the Americas region was attributable to increased consumer demand. Growth in the Asia-Pacific region results from increased demand in China. In the EMEA region, declines resulted from decreased automotive production.

In the second quarter of fiscal 2013, operating income in our Transportation Solutions segment increased $45 million to $241 million from $196 million in the second quarter of fiscal 2012. Segment results for the second quarter of fiscal 2013 included $18 million of net restructuring and other charges, of which $2 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the second quarter of fiscal 2013 also included $1 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the second quarter of fiscal 2012 included $3 million of acquisition costs. Excluding these items, operating income increased in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The increase resulted primarily from higher volume, lower material costs, and manufacturing productivity gains, partially offset by price erosion.

Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

In the first six months of fiscal 2013, net sales in our Transportation Solutions segment increased $144 million, or 5.7%, to $2,649 million from $2,505 million in the first six months of fiscal 2012. Organic net sales increased by $20 million, or 0.8%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $36 million, or 1.4%, in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. Deutsch contributed net sales of $160 million in the first six months of fiscal 2013.

In the automotive end market, our organic net sales increased 0.8% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The increase was due primarily to growth of 8.3% in the Americas region partially offset by declines of 2.4% in the EMEA region. The Asia-Pacific region was flat. Growth in the Americas region was driven by continued consumer demand resulting in increased vehicle production. In the EMEA region, declines resulted from decreased automotive production. In the Asia-Pacific region, increased demand in China was offset by declines in Japan.

Operating income in our Transportation Solutions segment increased $53 million to $433 million in the first six months of fiscal 2013 from $380 million in the same period of fiscal 2012. Segment results for the first six months of fiscal 2013 included $28 million of net restructuring and other charges, of which $2 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the first six months of fiscal 2013 also included $4 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the first six months of fiscal 2012 included $5 million of acquisition costs and $1 million of net restructuring and other charges. Excluding these items, operating income increased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The increase resulted primarily from higher volume, lower material costs, and manufacturing productivity gains, partially offset by price erosion.

Network Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	($ in millions)			
Net sales	$725	$815	$1,459	$1,617
Operating income	$19	$53	$55	$112
Operating margin	2.6%	6.5%	3.8%	6.9%

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The following table sets forth the Network Solutions segment's percentage of total net sales by primary industry end market[(1)]:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Telecom Networks	42%	39%	40%	38%
Data Communications	27	26	27	26
Enterprise Networks	20	20	20	20
Subsea Communications	11	15	13	16
Total	100%	100%	100%	100%

(1) Industry end market information is presented consistently with our internal management reporting and may be periodically revised as management deems necessary.

The following table provides an analysis of the change in the Network Solutions segment's net sales by primary industry end market:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[(1)]		Translation[(2)]	Divestiture	Total		Organic[(1)]		Translation[(2)]	Divestiture	Total	
	($ in millions)											
Telecom Networks	$(18)	(5.5)%	$(1)	$	$(19)	(5.9)%	$(35)	(5.5)%	$(4)	$	$(39)	(6.3)%
Data Communications	(18)	(8.4)	(1)	3	(16)	(7.6)	(28)	(6.6)	(1)	2	(27)	(6.4)
Enterprise Networks	(14)	(8.6)	(2)		(16)	(9.8)	(27)	(8.2)	(3)		(30)	(9.3)
Subsea Communications	(39)	(32.2)			(39)	(32.2)	(62)	(24.6)			(62)	(24.6)
Total	$(89)	(10.9)%	$(4)	$3	$(90)	(11.0)%	$(152)	(9.4)%	$(8)	$2	$(158)	(9.8)%

(1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

(2) Represents the change in net sales resulting from changes in foreign currency exchange rates.

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

Net sales in our Network Solutions segment decreased $90 million, or 11%, to $725 million in the second quarter of fiscal 2013 from $815 million in the second quarter of fiscal 2012. Organic net sales decreased $89 million, or 10.9%, in the second quarter of fiscal 2013 from the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $4 million, or 0.5%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012.

In the telecom networks end market, our organic net sales decreased 5.5% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 due primarily to market weakness and decreased capital investments by customers, particularly in the EMEA region. In the data communications end market, our organic net sales decreased 8.4% in the second quarter of fiscal 2013 from the second quarter of fiscal 2012 as a result of weakness in demand across all regions, particularly in datacenter markets. In the enterprise networks end market, our organic net sales decreased 8.6% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 with declines resulting primarily from market slowdowns in North America and the EMEA region. Organic net sales in the subsea communications end

market decreased 32.2% in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012 due to lower levels of project activity.

In the second quarter of fiscal 2013, operating income in the Network Solutions segment decreased $34 million to $19 million from $53 million in the second quarter of fiscal 2012. Segment results included net restructuring and other charges of $26 million and $24 million in the second quarters of fiscal 2013 and 2012, respectively. Excluding these items, operating income decreased in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The decrease was attributable to lower volume and price erosion, partially offset by manufacturing productivity gains.

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Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

In the first six months of fiscal 2013, net sales in our Network Solutions segment decreased $158 million, or 9.8%, to $1,459 million from $1,617 million in the first six months of fiscal 2012. Organic net sales decreased $152 million, or 9.4%, in the first six months of fiscal 2013 from the first six months of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $8 million, or 0.5%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012.

In the telecom networks end market, our organic net sales decreased 5.5% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 due primarily to market weakness and decreased capital investments by customers, particularly in the EMEA and Asia regions. In the data communications end market, our organic net sales decreased 6.6% in the first six months of fiscal 2013 from the same period of fiscal 2012 as a result of weakness in demand across all regions, particularly in datacenter markets. In the enterprise networks end market, our organic net sales decreased 8.2% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 with declines resulting primarily from continued market slowdowns in North America and, to a lesser degree, the EMEA and Asia-Pacific regions. Organic net sales in the subsea communications end market decreased 24.6% in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 due to lower levels of project activity.

Operating income in the Network Solutions segment decreased $57 million to $55 million in the first six months of fiscal 2013 from $112 million in the first six months of fiscal 2012. Segment results included net restructuring and other charges of $50 million and $30 million in the first six months of fiscal 2013 and 2012, respectively. Excluding these items, operating income decreased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The decrease resulted from lower volume and price erosion, partially offset by manufacturing productivity gains.

Industrial Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	**March 30, 2012**	**March 29, 2013**	**March 30, 2012**
		($ in millions)		
Net sales	$736	$711	$1,436	$1,396
Operating income	$78	$104	$148	$194
Operating margin	10.6%	14.6%	10.3%	13.9%

The following table sets forth the Industrial Solutions segment's percentage of total net sales by primary industry end market[(1)]:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	**March 30, 2012**	**March 29, 2013**	**March 30, 2012**
Industrial	38%	45%	38%	46%
Aerospace, Defense, and Marine	36	25	35	25
Energy	26	30	27	29
Total	100%	100%	100%	100%

(1) Industry end market information is presented consistently with our internal management reporting and may be periodically revised as management deems necessary.

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The following table provides an analysis of the change in the Industrial Solutions segment's net sales by primary industry end market:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[1]		Translation[2]	Acquisition	Total		Organic[1]		Translation[2]	Acquisition	Total	
	($ in millions)											
Industrial	$(41)	(12.9)%	$(3)	$	$(44)	(13.7)%	$(84)	(13.2)%	$(7)	$	$(91)	(14.2)%
Aerospace, Defense, and Marine	2	1.2	1	82	85	47.2	(3)	(0.8)	(2)	160	155	44.0
Energy	(14)	(6.8)	(2)		(16)	(7.7)	(20)	(5.1)	(4)		(24)	(5.9)
Total	$(53)	(7.4)%	$(4)	$82	$25	3.5%	$(107)	(7.7)%	$(13)	$160	$40	2.9%

(1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

(2) Represents the change in net sales resulting from changes in foreign currency exchange rates.

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

Net sales in our Industrial Solutions segment increased $25 million, or 3.5%, to $736 million in the second quarter of fiscal 2013 from $711 million in the second quarter of fiscal 2012. Organic net sales decreased $53 million, or 7.4%, during the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $4 million, or 0.6%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. Deutsch contributed net sales of $82 million in the second quarter of fiscal 2013.

In the industrial end market, our organic net sales decreased 12.9% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 due to continued market weakness across all regions, particularly in the EMEA region, and share loss in the solar market. In the aerospace, defense, and marine end market, our organic net sales increased 1.2% in the second quarter of fiscal 2013 from the second quarter of fiscal 2012 as increased production in the commercial aviation market and growth in the marine market resulting from increased oil and gas exploration was largely offset by a slowdown in defense spending. In the energy end market, our organic net sales decreased 6.8% in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012 as a result of market declines in the Americas and Asia-Pacific regions.

In the second quarter of fiscal 2013, operating income in the Industrial Solutions segment decreased $26 million to $78 million from $104 million in the second quarter of fiscal 2012. Segment results for the second quarter of fiscal 2013 included $21 million of net restructuring and other charges, of which $1 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the second quarter of fiscal 2013 also included $2 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the second quarter of fiscal 2012 included $1 million of net restructuring and other charges and $1 million of acquisition costs. Excluding these items, operating income decreased in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. The decrease resulted from the lower volume and, to a lesser degree, price erosion, partially offset by manufacturing productivity gains.

Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

In the first six months of fiscal 2013, net sales in our Industrial Solutions segment increased $40 million, or 2.9%, to $1,436 million from $1,396 million in the same period of fiscal 2012. Organic net sales decreased $107 million, or 7.7%, during the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $13 million, or 0.9%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. Deutsch contributed net sales of $160 million in the first six months of fiscal 2013.

In the industrial end market, our organic net sales decreased 13.2% in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 due to continued market weakness across all regions, particularly in the

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Asia-Pacific and EMEA regions, and share loss in the solar market. In the aerospace, defense, and marine end market, our organic net sales decreased 0.8% in the first six months of fiscal 2013 from the first six months of fiscal 2012 as a slowdown in defense spending was offset by increased production in the commercial aviation market and market share gains in oil and gas exploration. In the energy end market, our organic net sales decreased 5.1% in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 as a result of market declines in the Americas and Asia-Pacific regions.

Operating income in the Industrial Solutions segment decreased $46 million to $148 million in the first six months of fiscal 2013 from $194 million in the same period of fiscal 2012. Segment results for the first six months of fiscal 2013 included $33 million of net restructuring and other charges, of which $1 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the first six months of fiscal 2013 also included $4 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the first six months of fiscal 2012 included $9 million of net restructuring and other charges and $3 million of acquisition costs. Excluding these items, operating income decreased in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. The decrease was due to the lower volume and, to a lesser degree, unfavorable material costs and price erosion, partially offset by manufacturing productivity gains.

Consumer Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	($ in millions)			
Net sales	$419	$449	$855	$901
Operating income	$21	$32	$16	$60
Operating margin	5.0%	7.1%	1.9%	6.7%

The following table sets forth the Consumer Solutions segment's percentage of total net sales by primary industry end market[(1)]:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Consumer Devices	58%	58%	61%	60%
Appliance	42	42	39	40
Total	100%	100%	100%	100%

(1) Industry end market information is presented consistently with our internal management reporting and may be periodically revised as management deems necessary.

The following table provides an analysis of the change in the Consumer Solutions segment's net sales by primary industry end market:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012					Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012				
	Organic[(1)]		Translation[(2)]	Total		Organic[(1)]		Translation[(2)]	Total	
	($ in millions)									
Consumer Devices	$(10)	(3.9)%	$(5)	$(15)	(5.8)%	$(13)	(2.6)%	$(9)	$(22)	(4.1)%
Appliance	(13)	(7.0)	(2)	(15)	(7.9)	(20)	(5.6)	(4)	(24)	(6.6)
Total	$(23)	(5.1)%	$(7)	$(30)	(6.7)%	$(33)	(3.7)%	$(13)	$(46)	(5.1)%

(1)

Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

(2)

Represents the change in net sales resulting from changes in foreign currency exchange rates.

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

In the second quarter of fiscal 2013, net sales in our Consumer Solutions segment decreased $30 million, or 6.7%, to $419 million from $449 million in the second quarter of fiscal 2012. Organic net sales decreased $23 million, or 5.1%, during the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $7 million, or 1.6%, in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012.

In the consumer devices end market, our organic net sales decreased 3.9% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 as share gains in the mobile phone and tablet markets were more than offset by declines in the personal computer market. In the appliance end market, our organic net sales decreased 7.0% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 due primarily to declines in the EMEA and Americas regions.

Operating income in the Consumer Solutions segment decreased $11 million to $21 million in the second quarter of fiscal 2013 as compared to $32 million in the second quarter of fiscal 2012. Segment results included net restructuring and other charges of $16 million and $7 million in the second quarters of fiscal 2013 and 2012, respectively. Excluding these items, operating income was flat in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. Manufacturing productivity gains were offset by price erosion.

Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

Net sales in our Consumer Solutions segment decreased $46 million, or 5.1%, to $855 million in the first six months of fiscal 2013 from $901 million in the first six months of fiscal 2012. Organic net sales decreased $33 million, or 3.7%, during the first six months of fiscal 2013 as compared to the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $13 million, or 1.4%, in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012.

In the consumer devices end market, our organic net sales decreased 2.6% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 due to weakness in the personal computer market, partially offset by increased demand in the mobile phone and tablet markets. In the appliance end market, our organic net sales decreased 5.6% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 due primarily to declines in the EMEA region.

Operating income in the Consumer Solutions segment decreased $44 million to $16 million in the first six months of fiscal 2013 as compared to $60 million in the first six months of fiscal 2012. Segment results included net restructuring and other charges of $62 million and $10 million in the first six months of fiscal 2013 and 2012, respectively. Excluding these items, operating income increased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The increase was attributable to manufacturing productivity gains partially offset by price erosion.

Liquidity and Capital Resources

The following table summarizes our cash flow from operating, investing, and financing activities, as reflected on the Condensed Consolidated Statements of Cash Flows:

	For the Six Months Ended	
	March 29, 2013	March 30, 2012
	(in millions)	
Net cash provided by operating activities	$837	$729
Net cash used in investing activities	(232)	(271)
Net cash provided by (used in) financing activities	(1,120)	1,183
Effect of currency translation on cash	(1)	7
Net increase (decrease) in cash and cash equivalents	$(516)	$1,648

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Our ability to fund our future capital needs will be affected by our ability to continue to generate cash from operations and may be affected by our ability to access the capital markets, money markets, or other sources of funding, as well as the capacity and terms of our financing arrangements. We believe that cash generated from operations and, to the extent necessary, these other sources of potential funding will be sufficient to meet our anticipated capital needs for the foreseeable future, including the payment of our 5.95% senior notes due in January 2014. We may use excess cash to reduce our outstanding debt, including through the possible repurchase of our debt in accordance with applicable law, to purchase a portion of our common shares pursuant to our authorized share repurchase program, to pay distributions or dividends on our common shares, or to acquire strategic businesses or product lines. The cost or availability of future funding may be impacted by financial market conditions. We will continue to monitor financial markets, to respond as necessary to changing conditions.

Cash Flows from Operating Activities

In the first six months of fiscal 2013, net cash provided by continuing operating activities increased $163 million to $839 million from $676 million in the first six months of fiscal 2012. The increase resulted from higher income from continuing operations and improved working capital.

The amount of income taxes paid, net of refunds, was $173 million and $168 million during the first six months of fiscal 2013 and 2012, respectively. Net cash payments during the first six months of fiscal 2013 and 2012 included $67 million and $18 million, respectively, for tax deficiencies related to U.S. tax matters for the years 1997 through 2000. We expect net cash receipts related to pre-separation tax matters of approximately $36 million over the next twelve months. These amounts include payments in which we are the primary obligor to the taxing authorities and for which we expect a portion to be reimbursed by Tyco International and Covidien under the Tax Sharing Agreement, as well as indemnification receipts from and payments to Tyco International and Covidien under the Tax Sharing Agreement for tax matters where they are the primary obligor to the taxing authorities. See Note 9 to the Condensed Consolidated Financial Statements for additional information related to pre-separation tax matters.

In addition to net cash provided by operating activities, we use free cash flow, a non-GAAP financial measure, as a useful measure of our performance and ability to generate cash. Free cash flow was $657 million in the first six months of fiscal 2013 as compared to $451 million in the first six months of fiscal 2012. The increase was primarily driven by improved working capital. The following table sets forth a reconciliation of net cash provided by continuing operating activities, the most comparable GAAP financial measure, to free cash flow.

	For the Six Months Ended	
	March 29, 2013	March 30, 2012
	(in millions)	
Net cash provided by continuing operating activities	$839	$676
Capital expenditures	(253)	(270)
Proceeds from sale of property, plant, and equipment	4	7
Payments related to pre-separation U.S. tax matters, net	67	18
Payments to settle acquisition-related foreign currency derivative contracts		20
Free cash flow	$657	$451

Cash Flows from Investing Activities

In the first six months of fiscal 2013, capital spending decreased $17 million to $253 million from $270 million in the first six months of fiscal 2012. We expect fiscal 2013 capital spending levels to be approximately 4 to 5% of net sales. We believe our capital funding levels are adequate to support new programs and to invest in our manufacturing infrastructure to further enhance productivity and manufacturing capabilities.

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Cash Flows from Financing Activities and Capitalization

Total debt at March 29, 2013 and September 28, 2012 was $3,030 million and $3,711 million, respectively. See Note 7 to the Condensed Consolidated Financial Statements for additional information regarding debt.

Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, has a five-year unsecured senior revolving credit facility ("Credit Facility") with total commitments of $1,500 million. This facility expires in June 2016. TEGSA had no borrowings under the Credit Facility at March 29, 2013 and September 28, 2012.

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt (as defined in the Credit Facility) to Consolidated EBITDA (as defined in the Credit Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.5 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants. None of our covenants are presently considered restrictive to our operations. As of March 29, 2013, we were in compliance with all of our debt covenants and believe that we will continue to be in compliance with our existing covenants for the foreseeable future.

In addition to the Credit Facility, TEGSA is the borrower under the outstanding senior notes and outstanding commercial paper. TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd. Neither TE Connectivity Ltd. nor any of its subsidiaries provides a guarantee as to payment obligations under the 3.50% convertible subordinated notes due 2015 issued by ADC Telecommunications, Inc. prior to its acquisition in December 2010.

Payment of common share dividends and cash distributions to shareholders were $177 million and $153 million in the first six months of fiscal 2013 and 2012, respectively. We paid a $0.21 cash distribution to shareholders in the form of a capital reduction to the par value of our common shares in each of the first and second quarters of fiscal 2013. These capital reductions reduced the par value of our common shares from 0.97 Swiss Francs ("CHF") (equivalent to $0.86) to CHF 0.57 (equivalent to $0.44).

In March 2013, our shareholders approved a dividend payment to shareholders of CHF 0.96 (equivalent to $1.00) per share out of contributed surplus, payable in four equal quarterly installments of $0.25 per share beginning in the third quarter of fiscal 2013 through the second quarter of fiscal 2014.

During the first six months of fiscal 2013, we repurchased approximately 11 million of our common shares for $409 million under our share repurchase authorization. During the first six months of fiscal 2012, we did not purchase any of our common shares. At March 29, 2013, we had $898 million of availability remaining under our share repurchase authorization.

Backlog

At March 29, 2013, we had a backlog of unfilled orders of $2,673 million compared to a backlog of $2,633 million at September 28, 2012. Backlog by reportable segment was as follows:

	March 29, 2013	September 28, 2012
	(in millions)	
Transportation Solutions	$969	$874
Network Solutions	634	744
Industrial Solutions	787	743
Consumer Solutions	283	272
Total	$2,673	$2,633

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Commitments and Contingencies

Income Tax Matters

Effective June 29, 2007, we became the parent company of the former electronics businesses of Tyco International. On June 29, 2007, Tyco International distributed all of our shares, as well as its shares of its former healthcare businesses ("Covidien"), to its common shareholders (the "separation").

In connection with the separation, we entered into a Tax Sharing Agreement that generally governs our, Tyco International's, and Covidien's respective rights, responsibilities, and obligations after the distribution with respect to taxes, including ordinary course of business taxes and taxes, if any, incurred as a result of any failure of the distribution of all of our shares or the shares of Covidien to qualify as a tax-free distribution for U.S. federal income tax purposes within the meaning of Section 355 of the Internal Revenue Code (the "Code") or certain internal transactions undertaken in anticipation of the spin-offs to qualify for tax-favored treatment under the Code.

Pursuant to the Tax Sharing Agreement, upon separation, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under the Tax Sharing Agreement, we, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. See Note 8 to the Condensed Consolidated Financial Statements for additional information regarding the Tax Sharing Agreement.

During fiscal 2007, the Internal Revenue Service ("IRS") concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and issued Revenue Agent Reports that reflect the IRS' determination of proposed tax adjustments for the 1997 through 2000 period. Additionally, the IRS proposed civil fraud penalties against Tyco International arising from alleged actions of former executives in connection with certain intercompany transfers of stock in 1998 and 1999. The penalties were asserted against a prior subsidiary of Tyco International that was distributed to us in connection with the separation. Tyco International appealed certain of the proposed adjustments for the years 1997 through 2000, and Tyco International has now resolved all but one of the matters associated with the proposed tax adjustments, including reaching an agreement with the IRS on the penalty adjustment. In October 2012, the IRS issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the period 1997 through 2000, excluding one issue that remains in dispute as described below. As a result of these developments, in the first six months of fiscal 2013, we recognized an income tax benefit of $331 million and other expense of $231 million pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

The disputed issue involves the tax treatment of certain intercompany debt transactions. The IRS has asserted that certain intercompany loans originating during the period 1997 through 2000 did not constitute debt for U.S. federal income tax purposes and has disallowed related interest deductions recognized on Tyco International's U.S. income tax returns during the period. Tyco International contends that the intercompany financing qualified as debt for U.S. tax purposes and that the interest deductions reflected on the income tax returns are appropriate. The IRS and Tyco International remain unable to resolve this matter through the IRS appeals process. We understand that Tyco International expects to receive statutory notices of deficiency from the IRS in our third quarter of fiscal 2013. Upon receipt of these statutory notices, we expect that Tyco International will commence litigation of this matter with the IRS in U.S. federal court. Based upon relevant facts surrounding the intercompany debt transactions, relevant tax regulations, and applicable case law, we believe that we are adequately reserved for this matter. However, the ultimate outcome is uncertain and if the IRS were to prevail on its assertions, our share of the assessed tax, deficiency interest, and applicable withholding taxes and penalties could have a material adverse impact on our results of operations, financial position, or cash flows.

During the first six months of fiscal 2013, we made payments of $67 million for tax deficiencies related to undisputed tax adjustments for the years 1997 through 2000. Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997 through 2000. Over the next twelve months, we expect net cash receipts of approximately $36 million, inclusive of related indemnification receipts and payments, in connection with these pre-separation tax matters.

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The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011.

During fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010.

At March 29, 2013 and September 28, 2012, we have reflected $13 million and $71 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

We continue to believe that the amounts recorded on our Condensed Consolidated Financial Statements relating to the matters discussed above are appropriate. However, the ultimate resolution is uncertain and could result in a material impact to our results of operations, financial position, or cash flows.

Legal Matters

In the ordinary course of business, we are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, employment disputes, disputes on agreements, other commercial disputes, environmental matters, antitrust claims, and tax matters, including non-income tax matters such as value added tax, sales and use tax, real estate tax, and transfer tax. Management believes that these legal proceedings and claims likely will be resolved over an extended period of time. Although it is not feasible to predict the outcome of these proceedings, based upon our experience, current information, and applicable law, we do not expect that the outcome of these proceedings, either individually or in the aggregate, will have a material effect on our results of operations, financial position, or cash flows.

At March 29, 2013, we had a contingent purchase price commitment of $80 million related to our fiscal 2001 acquisition of Com-Net. This represents the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system was completed for and approved by the State of Florida in accordance with guidelines set forth in the contract. Under the terms of the purchase and sale agreement, we do not believe we have any obligation to the sellers. However, the sellers have contested our position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania, which is in the discovery phase. A liability for this contingency has not been recorded on the Condensed Consolidated Financial Statements as we do not believe that any payment is probable or reasonably estimable at this time.

Off-Balance Sheet Arrangements

Certain of our segments have guaranteed the performance of third parties and provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from fiscal 2013 through the completion of such transactions. The guarantees would be triggered in the event of nonperformance, and the potential exposure for nonperformance under the guarantees would not have a material effect on our results of operations, financial position, or cash flows.

In disposing of assets or businesses, we often provide representations, warranties, and/or indemnities to cover various risks including unknown damage to assets, environmental risks involved in the sale of real estate, liability for investigation and remediation of environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not expect that these uncertainties will have a material adverse effect on our results of operations, financial position, or cash flows.

At March 29, 2013, we had outstanding letters of credit and letters of guarantee in the amount of $359 million.

We have recorded liabilities for known indemnifications included as part of environmental liabilities. See Note 9 to the Condensed Consolidated Financial Statements for a discussion of these liabilities.

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In the normal course of business, we are liable for contract completion and product performance. In the opinion of management, such obligations will not significantly affect our results of operations, financial position, or cash flows.

Upon separation, we entered into a Tax Sharing Agreement, under which we share responsibility for certain of our, Tyco International's, and Covidien's income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. We, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of U.S. income tax liabilities that arise from adjustments made by tax authorities to our, Tyco International's, and Covidien's U.S. income tax returns. The effect of the Tax Sharing Agreement is to indemnify us for 69% of certain liabilities settled in cash by us with respect to unresolved pre-separation tax matters. Pursuant to that indemnification, we have made similar indemnifications to Tyco International and Covidien with respect to 31% of certain liabilities settled in cash by the companies relating to unresolved pre-separation tax matters. If any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. These arrangements have been valued upon our separation from Tyco International in accordance with Accounting Standards Codification 460, *Guarantees*, and, accordingly, liabilities amounting to $241 million were recorded on the Condensed Consolidated Balance Sheet at March 29, 2013. See Notes 8 and 9 to the Condensed Consolidated Financial Statements for additional information.

Critical Accounting Policies and Estimates

The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses.

Our accounting policies for revenue recognition, goodwill and other intangible assets, income taxes, pension and postretirement benefits, acquisitions, and contingent liabilities are based on, among other things, judgments and assumptions made by management. During the six months ended March 29, 2013, there were no significant changes to these policies or to the underlying accounting assumptions and estimates used in these policies from those disclosed in the Consolidated Financial Statements and accompanying notes contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

Non-GAAP Financial Measures

Organic Net Sales Growth

Organic net sales growth is a non-GAAP financial measure. The difference between reported net sales growth (the most comparable GAAP measure) and organic net sales growth (the non-GAAP measure) consists of the impact from foreign currency exchange rates, acquisitions, and divestitures. Organic net sales growth is a useful measure of the underlying results and trends in our business. It excludes items that are not completely under management's control, such as the impact of changes in foreign currency exchange rates, and items that do not reflect the underlying growth of the company, such as acquisition and divestiture activity.

We believe organic net sales growth provides useful information to investors because it reflects the underlying growth from the ongoing activities of our business. Furthermore, it provides investors with a view of our operations from management's perspective. We use organic net sales growth to monitor and evaluate performance, as it is an important measure of the underlying results of our operations. Management uses organic net sales growth together with GAAP measures such as net sales growth and operating income in its decision making processes related to the operations of our reporting segments and our overall company. We believe that investors benefit from having access to the same financial measures that management uses in evaluating operations. The discussion and analysis of organic net sales growth in Results of Operations above utilizes organic net sales growth as management does internally. Because organic net sales growth calculations may vary among other companies, organic net sales growth amounts presented above may not be comparable with similarly titled measures of other companies. Organic net sales growth is a non-GAAP financial measure that is not meant to be considered in isolation or as a substitute for GAAP measures. The primary limitation of this measure is that it excludes items that

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have an impact on our net sales. This limitation is best addressed by evaluating organic net sales growth in combination with our GAAP net sales. The tables presented in Results of Operations above provide reconciliations of organic net sales growth to net sales growth calculated under GAAP.

Free Cash Flow

Free cash flow is a non-GAAP financial measure. The difference between net cash provided by continuing operating activities (the most comparable GAAP measure) and free cash flow (the non-GAAP measure) consists mainly of significant cash outflows and inflows that we believe are useful to identify. Free cash flow is a useful measure of our performance and ability to generate cash. It also is a significant component in our incentive compensation plans. We believe free cash flow provides useful information to investors as it provides insight into the primary cash flow metric used by management to monitor and evaluate cash flows generated from our operations.

Free cash flow excludes net capital expenditures, voluntary pension contributions, and the cash impact of special items. Net capital expenditures are subtracted because they represent long-term commitments. Voluntary pension contributions are subtracted from the GAAP measure because this activity is driven by economic financing decisions rather than operating activity. Certain special items, including net payments related to pre-separation tax matters, also are considered by management in evaluating free cash flow. We believe investors should also consider these items in evaluating our free cash flow.

Free cash flow as presented herein may not be comparable to similarly-titled measures reported by other companies. The primary limitation of this measure is that it excludes items that have an impact on our GAAP cash flow. Also, it subtracts certain cash items that are ultimately within management's and the board of directors' discretion to direct and may imply that there is less or more cash available for our programs than the most comparable GAAP measure indicates. This limitation is best addressed by using free cash flow in combination with the GAAP cash flow results. It should not be inferred that the entire free cash flow amount is available for future discretionary expenditures, as our definition of free cash flow does not consider certain non-discretionary expenditures, such as debt payments. In addition, we may have other discretionary expenditures, such as discretionary dividends, share repurchases, and business acquisitions, that are not considered in the calculation of free cash flow.

The tables presented in "Liquidity and Capital Resources" above provide reconciliations of free cash flow to cash flows from continuing operating activities calculated under GAAP.

Forward-Looking Information

Certain statements in this quarterly report on Form 10-Q are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among others, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, acquisitions, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "should," or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we file this report except as required by law.

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The following and other risks, which are described in greater detail in "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012, could also cause our results to differ materially from those expressed in forward-looking statements:

- Conditions in the global or regional economies and global capital markets, and cyclical industry conditions;
- Conditions affecting demand for products in the industries we serve, particularly the automotive industry and the telecommunications, computer, and consumer electronics industries;
- Competition and pricing pressure;
- Market acceptance of new product introductions and product innovations and product life cycles;
- Raw material availability, quality, and cost;
- Fluctuations in foreign currency exchange rates;
- Ability to achieve cost savings from restructurings;
- Financial condition and consolidation of customers and vendors;
- Reliance on third-party suppliers;
- Our ability to attract and retain highly qualified personnel;
- Risks associated with our acquisition of Deutsch;
- Risks associated with future acquisitions and divestitures;
- Global risks of business interruptions such as natural disasters and political, economic, and military instability;
- Risks related to compliance with current and future environmental and other laws and regulations;
- Our ability to protect our intellectual property rights;
- Risks of litigation;
- Our ability to operate within the limitations imposed by our debt instruments;

- Risks relating to our separation on June 29, 2007 from Tyco International Ltd.;

- The possible effects on us of various U.S. and non-U.S. legislative proposals and other initiatives that, if adopted, could materially increase our worldwide corporate effective tax rate and negatively impact our U.S. government contracts business;

- Various risks associated with being a Swiss corporation;

- The impact of fluctuations in the market price of our shares; and

- The impact of certain provisions of our articles of association on unsolicited takeover proposals.

There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our exposures to market risk during the first six months of fiscal 2013. For further discussion of our exposures to market risk, refer to "Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of March 29, 2013. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 29, 2013.

Deutsch Acquisition

Securities and Exchange Commission guidance permits management to omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year. In accordance with this guidance, we excluded the Deutsch operations, acquired on April 3, 2012, from the scope of our annual assessment of the effectiveness of internal control over financial reporting for the year ended September 28, 2012. The Deutsch operations will be included in our annual assessment for the year ending September 27, 2013.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 29, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in our legal proceedings since we filed our Annual Report on Form 10-K for the fiscal year ended September 28, 2012. For a description of our previously reported legal proceedings, refer to "Part I. Item 3. Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012. The risk factors described in our Annual Report on Form 10-K, in addition to other information set forth in this report, could materially affect our business operations, financial condition, or liquidity. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business operations, financial condition, and liquidity.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

The following table presents information about our purchases of our common shares during the quarter ended March 29, 2013:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(2)
December 29, 2012 - January 25, 2013	10,518	$37.62		$1,129,276,827
January 26 - March 1, 2013	2,778,520	40.05	2,775,226	1,018,138,109
March 2 - March 29, 2013	2,877,381	41.75	2,877,300	898,015,466
Total	5,666,419	$40.91	5,652,526	

(1) This column includes the following transactions which occurred during the quarter ended March 29, 2013:

(i) the acquisition of 13,893 common shares from individuals in order to satisfy tax withholding requirements in connection with the vesting of restricted share awards issued under equity compensation plans; and

(ii) open market purchases totaling 5,652,526 common shares, summarized on a trade-date basis, in conjunction with the share repurchase program announced in September 2007.

(2) Our share repurchase program authorizes us to purchase a portion of our outstanding common shares from time to time through open market or private transactions, depending on business and market conditions. The share repurchase program does not have an expiration date.

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ITEM 6. EXHIBITS

Exhibit Number	Exhibit
3.1	Articles of Association of TE Connectivity Ltd. (Incorporated by reference to Exhibit 3.1 to TE Connectivity's Current Report on Form 8-K, filed March 7, 2013)
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101	Financial statements from the Quarterly Report on Form 10-Q of TE Connectivity Ltd. for the quarterly period ended March 29, 2013, filed on April 24, 2013, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements*

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* Filed herewith

** Furnished herewith

Neither TE Connectivity Ltd. nor any of its consolidated subsidiaries has outstanding any instrument with respect to its long-term debt, other than those filed as an exhibit to TE Connectivity Ltd.'s Annual Report on Form 10-K for the fiscal year ended September 28, 2012, under which the total amount of securities authorized exceeds 10% of the total assets of TE Connectivity Ltd. and its subsidiaries on a consolidated basis. TE Connectivity Ltd. hereby agrees to furnish to the U.S. Securities and Exchange Commission, upon request, a copy of each instrument that defines the rights of holders of such long-term debt that is not filed or incorporated by reference as an exhibit to our annual and quarterly reports.

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SIGNATURES

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.

TE CONNECTIVITY LTD.

By: /s/ ROBERT W. HAU

Robert W. Hau
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: April 24, 2013