

ENCORE WIRE CORP /DE/

Form 10-Q

November 02, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**

**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: 0-20278**

**ENCORE WIRE CORPORATION**

**(Exact name of registrant as specified in its charter)**

**Delaware**

(State of Incorporation)

**75-2274963**

(I.R.S. employer identification number)

**1329 Millwood Road**

**McKinney, Texas**

(Address of principal executive offices)

**75069**

(Zip code)

**Registrant's telephone number, including area code: (972) 562-9473**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such Reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Number of shares of Common Stock outstanding as of October 31, 2007: 23,365,002

**ENCORE WIRE CORPORATION**  
**FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007**

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**Table of Contents****PART I. FINANCIAL INFORMATION**

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ENCORE WIRE CORPORATION  
CONSOLIDATED BALANCE SHEETS

In Thousands of Dollars	September 30, 2007 (Unaudited)	December 31, 2006 (See Note)
<b>ASSETS</b>		
Current assets:		
Cash	\$ 59,243	\$ 24,603
Accounts receivable (net of allowance of \$995 and \$884)	246,502	214,963
Inventories (Note 2)	89,286	103,947
Prepaid expenses and other assets	1,514	6,713
Current taxes receivable	10,909	18,523
Current deferred income taxes		2,301
 Total current assets	 407,454	 371,050
Property, plant and equipment at cost:		
Land	10,792	9,592
Construction in progress	19,921	6,672
Buildings and improvements	47,065	47,065
Machinery and equipment	142,622	136,552
Furniture and fixtures	4,155	4,072
 Total property, plant, and equipment	 224,555	 203,953
Accumulated depreciation and amortization	(110,076)	(100,966)
 Net property, plant, and equipment	 114,479	 102,987
Other assets	120	120
 Total assets	 \$ 522,053	 \$ 474,157

Note: The consolidated balance sheet at December 31, 2006, as presented, is derived from the audited consolidated financial statements at that date.

See accompanying notes.

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ENCORE WIRE CORPORATION  
 CONSOLIDATED BALANCE SHEETS (continued)

In Thousands of Dollars, Except Share Data	September 30, 2007 (Unaudited)	December 31, 2006 (See Note)
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 24,951	\$ 13,413
Accrued liabilities	23,772	23,772
Current deferred income taxes	5,774	
 Total current liabilities	 54,497	 37,185
Non-current deferred income taxes	9,031	9,851
Long term notes payable	99,676	98,974
Other long term liabilities	324	1,026
 Stockholders equity:		
Common stock, \$.01 par value:		
Authorized shares - 40,000,000; Issued shares 26,123,952 and 26,035,302	261	260
Additional paid-in capital	41,749	40,849
Treasury stock, at cost - 2,758,950 shares	(15,275)	(15,275)
Retained earnings	331,790	301,287
 Total stockholders equity	 358,525	 327,121
 Total liabilities and stockholders equity	 \$ 522,053	 \$ 474,157

Note: The consolidated balance sheet at December 31, 2006, as presented, is derived from the audited consolidated financial statements at that date.

See accompanying notes.

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ENCORE WIRE CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

In Thousands of Dollars, Except Per Share Data	Quarter Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 308,481	\$ 372,915	\$ 902,845	\$ 987,011
Cost of goods sold	282,962	298,649	805,020	766,520
Gross profit	25,519	74,266	97,825	220,491
Selling, general, and administrative expenses	15,324	16,589	45,739	46,760
Operating income	10,195	57,677	52,086	173,731
Net interest & other expenses	922	2,530	3,227	5,608
Income before income taxes	9,273	55,147	48,859	168,123
Provision for income taxes	3,518	19,386	16,955	59,166
Net income	\$ 5,755	\$ 35,761	\$ 31,904	\$ 108,957
Net income per common and common equivalent shares basic	\$ 0.25	\$ 1.54	\$ 1.37	\$ 4.69
Weighted average common and common equivalent shares basic	23,362	23,267	23,344	23,248
Net income per common and common equivalent shares - diluted	\$ 0.24	\$ 1.51	\$ 1.35	\$ 4.60
Weighted average common and common equivalent shares - diluted	23,708	23,680	23,706	23,666
Cash dividends declared per share	\$ 0.02	\$	\$ 0.06	\$

See accompanying notes.

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ENCORE WIRE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

In Thousands of Dollars	Nine Months Ended September 30,	
	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 31,904	\$ 108,957
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	10,252	9,052
Deferred income tax liability (benefit)	7,255	(3,864)
Excess tax benefits of options exercised	(95)	(768)
Other	199	476
Changes in operating assets and liabilities:		
Accounts receivable	(31,644)	(127,283)
Inventory	14,661	(46,391)
Other assets and liabilities	4,926	(5,279)
Accounts payable and accrued liabilities	11,536	18,627
Current income taxes receivable/payable	7,709	(17,379)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>56,703</b>	<b>(63,852)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(21,594)	(19,351)
Proceeds from sale of equipment	207	225
Other	6	
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(21,381)</b>	<b>(19,126)</b>
<b>FINANCING ACTIVITIES</b>		
Borrowings (repayments) under notes payable		113,800
Deferred financing fees		(152)
Proceeds from issuance of common stock	622	623
Dividend paid	(1,399)	
Excess tax benefit of options exercised	95	768
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(682)</b>	<b>115,039</b>
Net increase (decrease) in cash	34,640	32,061
Cash at beginning of period	24,603	2,622

Cash at end of period	\$ 59,243	\$ 34,683
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See accompanying notes.

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ENCORE WIRE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

September 30, 2007

**NOTE 1 BASIS OF PRESENTATION**

The unaudited consolidated financial statements of Encore Wire Corporation (the Company) have been prepared in accordance with U.S. generally accepted accounting principles for interim information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Results of operations for interim periods presented do not necessarily indicate the results that may be expected for the entire year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Certain reclassifications have been made to prior periods' financial statements to conform to the current presentation. Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions. The Company's federal income tax returns for the years subsequent to December 31, 2003 remain subject to examination. The Company's income tax returns in major state income tax jurisdictions remain subject to examination for various periods subsequent to December 31, 2002. The Company has no reserves for uncertain tax positions and no adjustments were required upon adoption of FIN 48. Furthermore, the Company is not aware of any anticipated transactions or tax positions in the foreseeable future that would create a need to establish a reserve for any uncertain tax positions. Interest and penalties resulting from audits by tax authorities have been immaterial and are included in the provision for income taxes in the consolidated statements of income.

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## NOTE 2 INVENTORIES

Inventories are stated at the lower of cost, determined by the last-in, first-out (LIFO) method, or market.

Inventories consisted of the following (in thousands):

	September 30, 2007	December 31, 2006
Raw materials	\$ 22,149	\$ 18,259
Work-in-process	18,615	17,998
Finished goods	129,018	149,962
	169,782	186,219
Adjust to LIFO cost	(80,496)	(82,272)
	89,286	103,947
Lower of Cost or Market Adjustment		
	\$ 89,286	\$ 103,947

LIFO pools are established and frozen at the end of each fiscal year. During the first three quarters of every year, LIFO calculations are based on the inventory levels and costs at that time. Accordingly, interim LIFO balances will fluctuate up and down in tandem with inventory levels and costs.

**Table of Contents****NOTE 3 NET EARNINGS PER SHARE**

Net earnings per common and common equivalent share are computed using the weighted average number of shares of common stock and common stock equivalents outstanding during each period. If dilutive, the effect of stock options, treated as common stock equivalents, is calculated using the treasury stock method.

The following table sets forth the computation of basic and diluted net earnings per share (in thousands):

	Quarter Ended 9/30/07	Quarter Ended 9/30/06
Numerator:		
Net income	\$ 5,755	\$ 35,761
Denominator:		
Denominator for basic earnings per share    weighted average shares	23,362	23,267
Effect of dilutive securities:		
Employee stock options	346	413
Denominator for diluted earnings per share    weighted average shares	23,708	23,680

The following table sets forth the computation of basic and diluted net earnings per share (in thousands):

	Nine Months Ended 9/30/07	Nine Months Ended 9/30/06
Numerator:		
Net income	\$ 31,904	\$ 108,957
Denominator:		
Denominator for basic earnings per share    weighted average shares	23,344	23,248
Effect of dilutive securities:		
Employee stock options	362	418
Denominator for diluted earnings per share    weighted average shares	23,706	23,666

**Table of Contents****NOTE 4 LONG TERM NOTES PAYABLE**

The Company is party to a Financing Agreement with two banks, Bank of America, N.A., as Agent, and Wells Fargo Bank, National Association (the Financing Agreement). The Company is the primary obligor of the indebtedness under the Financing Agreement. In 2006, the Financing Agreement was amended twice. The Financing Agreement was first amended May 16, 2006, to expand the Company's line of credit from \$85,000,000 to \$150,000,000, as disclosed in previous filings with the SEC. The Financing Agreement was amended a second time on August 31, 2006, to expand the Company's line of credit from \$150,000,000 to \$200,000,000, as disclosed in previous filings with the SEC. The Financing Agreement, as amended, extends through August 27, 2009, and provides for maximum borrowings of the lesser of \$200,000,000 or the amount of eligible accounts receivable plus the amount of eligible finished goods and raw materials, less any reserves established by the banks. The calculated maximum borrowing amount available at September 30, 2007, as computed under the Financing Agreement, as amended, was \$200,000,000. Borrowings under the line of credit bear interest, at the Company's option, at either (1) LIBOR plus a margin that varies from 0.875% to 1.75% depending upon the ratio of debt outstanding to adjusted earnings or (2) the base rate (which is the higher of the federal funds rate plus 0.5% or the prime rate) plus 0% to 0.25% (depending upon the ratio of debt outstanding to adjusted earnings). A commitment fee ranging from 0.20% to 0.375% (depending upon the ratio of debt outstanding to adjusted earnings) is payable on the unused line of credit. On September 30, 2007, the balance borrowed and outstanding under the Financing Agreement was zero.

The Company, through its agent bank, is also a party to a Note Purchase Agreement (the 2004 Note Purchase Agreement) with Hartford Life Insurance Company, Great-West Life & Annuity Insurance Company, London Life Insurance Company and London Life and Casualty Reinsurance Corporation (collectively, the 2004 Purchasers), whereby the Company issued and sold \$45,000,000 of 5.27% Senior Notes, Series 2004-A, due August 27, 2011 (the Fixed Rate Senior Notes) to the 2004 Purchasers, the proceeds of which were used to repay a portion of the Company's outstanding indebtedness under its previous financing agreement. Through its agent bank, the Company is also a party to an interest rate swap agreement to convert the fixed rate on the Fixed Rate Senior Notes to a variable rate based on LIBOR plus a fixed adder for the seven-year duration of these notes. As of September 30, 2007, the Company recorded a liability and a corresponding unrealized reduction to notes payable on the balance sheet of \$324,000 to account for the fair value of the interest rate swap.

On September 28, 2006, the Company, through its agent bank, entered into a second Note Purchase Agreement (the 2006 Note Purchase Agreement) with Metropolitan Life Insurance Company, Metlife Insurance Company of Connecticut and Great-West Life & Annuity Insurance Company, whereby the Company issued and sold \$55,000,000 of Floating Rate Senior Notes, Series 2006-A, due September 30, 2011 (the Floating Rate Senior Notes), the proceeds of which were used to repay a portion of the Company's outstanding indebtedness under its Financing Agreement. Obligations under the Financing Agreement, the Fixed Rate Senior Notes and the Floating Rate Senior Notes are unsecured and contain customary covenants and events of default. The Company was in compliance with these covenants, as of September 30, 2007. Under the Financing Agreement, the 2004 Note Purchase Agreement and the

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2006 Note Purchase Agreement, the Company is allowed to pay cash dividends. At September 30, 2007, the total balance outstanding under the Financing Agreement, the Fixed Rate Senior Notes and the Floating Rate Senior Notes was \$100,000,000. Amounts outstanding under the Financing Agreement are payable on August 27, 2009, with interest payments due quarterly. Interest payments on the Fixed Rate Senior Notes are due semi-annually, while interest payments on the Floating Rate Senior Notes are due quarterly. Obligations under the Financing Agreement, the 2004 Note Purchase Agreement and the 2006 Note Purchase Agreement are the only contractual obligations or commercial borrowing commitments of the Company.

Effective June 30, 2007, the Company consummated a reorganization in order to simplify its corporate structure and become an operating company. As a part of the reorganization, the Company became the primary obligor of the indebtedness under the Financing Agreement, the 2004 Note Purchase Agreement and the 2006 Note Purchase Agreement. The Company entered into amendments to each of such agreements and issued new notes to the banks, the 2004 Purchasers and the 2006 Purchasers.

**NOTE 5 STOCK REPURCHASE AUTHORIZATION**

On November 10, 2006, the Board of Directors of the Company approved a new stock repurchase program covering the purchase of up to 1,000,000 additional shares of its common stock dependent upon market conditions. Common stock purchases under this program were authorized through December 31, 2007 on the open market or through privately negotiated transactions at prices determined by the President of the Company. There were no repurchases of stock in 2005, 2006 or the first nine months of 2007.

**NOTE 6 CONTINGENCIES**

There are no material pending proceedings to which the Company is a party or of which any of its property is the subject. However, the Company is a party to litigation and claims arising out of the ordinary business of the Company. While the results of these matters cannot be predicted with certainty, the Company does not believe the final outcome of such litigation and claims will have a material adverse effect on the financial condition, the results of operations or the cash flows of the Company, in part because the Company believes that it has adequate insurance to cover any damages that may ultimately be awarded.

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

**General**

The Company is a low-cost manufacturer of copper electrical building wire and cable. The Company is a significant supplier of residential wire for interior wiring in homes, apartments and manufactured housing and commercial wire for commercial and industrial buildings.

The Company's operating results in any given time period are driven by several key factors, including, the volume of product produced and shipped, the cost of copper and other raw materials, the competitive pricing environment in the wire industry and the resulting influence on gross margins and the efficiency with which the Company's plant

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operates during the period, among others. Price competition for electrical wire and cable is intense, and the Company sells its products in accordance with prevailing market prices. Copper is the principal raw material used by the Company in manufacturing its products. Copper accounted for approximately 82.3%, 76.8% and 73.0% of the Company's cost of goods sold during fiscal 2006, 2005 and 2004, respectively. The price of copper fluctuates, depending on general economic conditions and in relation to supply and demand and other factors, which has caused monthly variations in the cost of copper purchased by the Company. The Company cannot predict future copper prices or the effect of fluctuations in the cost of copper on the Company's future operating results.

The following discussion and analysis relates to factors that have affected the operating results of the Company for the quarterly and nine-month periods ended September 30, 2007 and 2006. Reference should also be made to the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Effective June 30, 2007, the Company consummated a reorganization in order to merge the operations of its indirectly wholly-owned subsidiary, Encore Wire Limited, a Texas limited partnership, into the Company and reorganize the Company as an operating company. The reorganization simplified the Company's corporate structure and was accomplished by a series of tax-free merger transactions. As a part of the reorganization, the Company became the primary obligor of the indebtedness under the Financing Agreement, the 2004 Note Purchase Agreement and the 2006 Note Purchase Agreement referred to in "Liquidity and Capital Resources", below. The Company entered into amendments to each of such agreements and issued new notes to the banks and note holders.

**Results of Operations**

**Quarter Ended September 30, 2007 Compared to Quarter Ended September 30, 2006**

Net sales for the third quarter of 2007 amounted to \$308.5 million compared with net sales of \$372.9 million for the third quarter of 2006. This dollar decrease was primarily the result of a 16.4% decrease in the average price of wire sold, and a 1.2% decrease in unit volume of wire shipped measured in pounds of copper contained in the wire sold. In contrast, the average cost per pound of raw copper purchased decreased only 2.9% in the third quarter of 2007 compared to the third quarter of 2006. These factors resulted in decreased gross margins in the third quarter of 2007 versus the third quarter of 2006. Fluctuations in sales prices are primarily a result of changing copper raw material prices and product price competition.

Cost of goods sold decreased to \$283.0 million, but rose to 91.7% of net sales, in the third quarter of 2007, compared to \$298.6 million, or 80.1% of net sales, in the third quarter of 2006. Gross profit decreased to \$25.5 million, or 8.3% of net sales, in the third quarter of 2007 versus \$74.3 million, or 19.9% of net sales, in the third quarter of 2006. The decreased gross profit and gross margin percentages were primarily the result of industry wide pricing trends that decreased the spread between the selling price of copper wire and the purchase cost of raw copper. Management believes that margins were driven lower partially due to the slowdown in residential construction in the United States, which spawned price-cutting by certain competitors.

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Inventories are stated at the lower of cost, using the last-in, first-out (LIFO) method, or market. The Company maintains only one inventory pool for LIFO purposes as all inventories held by the Company generally relate to the Company's only business segment, the manufacture and sale of copper building wire products. As permitted by U.S. generally accepted accounting principles, the Company maintains its inventory costs and cost of goods sold on a first-in, first-out (FIFO) basis and makes a quarterly adjustment to adjust total inventory and cost of goods sold from FIFO to LIFO. The Company applies the lower of cost or market (LCM) test by comparing the LIFO cost of its raw materials, work-in-process and finished goods inventories to estimated market values, which are based primarily upon the most recent quoted market price of copper, in pound quantities, as of the end of each reporting period.

Additionally, future reductions in the quantity of inventory on hand could cause copper that is carried in inventory at costs different from the cost of copper in the period in which the reduction occurs to be included in costs of goods sold for that period.

As a result of stable copper costs, and a decrease in the amount of inventory on hand during the third quarter of 2007, a LIFO adjustment was recorded, decreasing cost of sales by \$3.9 million during the quarter. Based on copper prices at the end of the quarter, no LCM adjustment was necessary. Future reductions in the price of copper could require the Company to record a LCM adjustment against the related inventory balance, which would result in a negative impact on net income.

Selling expenses for the third quarter of 2007 were \$13.0 million, or 4.2% of net sales, compared to \$14.7 million, or 3.9% of net sales, for the third quarter of 2006. The slight percentage increase was due to the increase in freight costs as a percentage of net sales, driven by the decrease in sales dollars discussed above. Freight costs increased on a per pound basis, however, primarily due to higher fuel costs in the trucking industry. General and administrative expenses increased to \$2.3 million, or 0.8% of net sales, in the third quarter of 2007 compared to \$1.8 million, or 0.5% of net sales, in the third quarter of 2006. The general and administrative costs are semi-fixed by nature and therefore do not fluctuate proportionately with sales. The provision for bad debts was \$45,000 in the third quarter of 2007 and 2006. Net interest and other income and expense were \$921,000 in the third quarter of 2007 compared to \$2.5 million in the third quarter of 2006. The decrease was due primarily to lower average debt balances during the third quarter of 2007 than during the comparable period in 2006. Taxes were accrued at an effective rate of 37.9% in the third quarter of 2007 consistent with the Company's estimated liabilities. This rate increased from 35.2% in the third quarter of 2006 primarily due to benefits deferred from the Jobs Creation Act, which lowers federal tax rates for domestic manufacturing companies. This Jobs Creation Act benefit was lowered in the third quarter of 2007 due to the Company taking a large deferred tax benefit in the quarterly tax LIFO calculations, thereby reducing the amount of income subject to the credit.

As a result of the foregoing factors, the Company's net income decreased to \$5.8 million in the third quarter of 2007 from \$35.8 million in the third quarter of 2006.

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**Nine Months Ended September 30, 2007 compared to Nine Months Ended September 30, 2006**

Net sales for the first nine months of 2007 amounted to \$902.8 million compared with net sales of \$987.0 million for the first nine months of 2006. This dollar decrease was primarily the result of a 6.7% decrease in the average price of wire sold coupled with a 1.7% decrease in the unit volume of wire sold measured in pounds of copper contained in the wire. The average cost per pound of raw copper purchased, however, increased 5.7% in the first nine months of 2007 compared to the first nine months of 2006, driving gross margins down as discussed in the quarterly analysis above. Fluctuations in sales prices are primarily a result of changing copper raw material prices and product price competition.

Cost of goods sold increased to \$805.0 million in the first nine months of 2007, compared to \$766.5 million in the first nine months of 2006. Gross profit decreased to \$97.8 million, or 10.8% of net sales, in the first nine months of 2007 versus \$220.5 million, or 22.3% of net sales, in the first nine months of 2006. The decreased gross profit and gross margin percentages were primarily the result of the margin erosion in 2007 versus 2006 as discussed above.

As a result of increasing copper costs and a decreased amount of inventory on hand during the first nine months of 2007, a LIFO adjustment was recorded decreasing cost of sales by \$1.8 million during the period. Based on the current copper prices, there is no LCM adjustment necessary. Future reductions in the price of copper could require the Company to record a LCM adjustment against the related inventory balance, which would result in a negative impact on net income.

Selling expenses for the first nine months of 2007 decreased to \$38.4 million, increasing slightly in percentage terms to 4.3% of net sales, compared to \$40.2 million, or 4.1% of net sales, in the same period of 2006. General and administrative expenses increased to \$7.2 million, or 0.8% of net sales, in the first nine months of 2007 compared to \$6.4 million, or 0.7% of net sales, in the same period of 2006. The general and administrative costs are semi-fixed by nature and therefore do not fluctuate proportionately with sales. The provision for bad debts was \$105,000 and \$135,000 in the first nine months of 2007 and 2006, respectively.

Net interest expense was \$3.2 million in the first nine months of 2007 compared to \$5.6 million in the first nine months of 2006. The decrease was due primarily to lower average debt balances during the first nine months of 2007 than during the comparable period in 2006.

As a result of the foregoing factors, the Company's net income decreased to \$31.9 million in the first nine months of 2007 from \$109.0 million in the first nine months of 2006.

**Liquidity and Capital Resources**

The Company maintains a substantial inventory of finished products to satisfy customers' prompt delivery requirements. As is customary in the industry, the Company provides payment terms to most of its customers that exceed terms that it receives from its suppliers. Therefore, the Company's liquidity needs have generally consisted of



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operating capital necessary to finance these receivables and inventory. Capital expenditures have historically been necessary to expand the production capacity of the Company's manufacturing operations. The Company has historically satisfied its liquidity and capital expenditure needs with cash generated from operations, borrowings under its various debt arrangements and sales of its common stock. The Company uses its revolving credit facility to manage day to day operating cash needs as required by daily fluctuations in working capital. The total debt balance fluctuates daily as cash inflows differ from cash outflows.

The Company is party to a Financing Agreement with two banks, Bank of America, N.A., as Agent, and Wells Fargo Bank, National Association (the Financing Agreement). The Company is the primary obligor of the indebtedness under the Financing Agreement as a result of the reorganization transaction effected by the Company effective June 30, 2007. In 2006, the Financing Agreement was amended twice. The Financing Agreement was first amended May 16, 2006, to expand the Company's line of credit from \$85,000,000 to \$150,000,000, as disclosed in previous filings with the SEC. The Financing Agreement was amended a second time on August 31, 2006, to expand the Company's line of credit from \$150,000,000 to \$200,000,000, as disclosed in previous filings with the SEC. The Financing Agreement, as amended, extends through August 27, 2009 and provides for maximum borrowings of the lesser of \$200,000,000 or the amount of eligible accounts receivable plus the amount of eligible finished goods and raw materials, less any reserves established by the banks. The calculated maximum borrowing amount available at September 30, 2007, as computed under the Financing Agreement, as amended, was \$200,000,000.

The Company, through its agent bank, is also a party to a Note Purchase Agreement (the 2004 Note Purchase Agreement) with Hartford Life Insurance Company, Great-West Life & Annuity Insurance Company, London Life Insurance Company and London Life and Casualty Reinsurance Corporation (collectively, the 2004 Purchasers), whereby the Company issued and sold \$45,000,000 of 5.27% Senior Notes, Series 2004-A, due August 27, 2011 (the Fixed Rate Senior Notes) to the 2004 Purchasers, the proceeds of which were used to repay a portion of the Company's outstanding indebtedness under its previous financing agreement. Through its agent bank, the Company is also a party to an interest rate swap agreement to convert the fixed rate on the Fixed Rate Senior Notes to a variable rate based on LIBOR plus a fixed adder for the seven-year duration of these notes. As of September 30, 2007, the Company recorded a liability and a corresponding unrealized reduction to notes payable on the balance sheet of \$324,000 to account for the fair value of the interest rate swap.

On September 28, 2006, the Company, through its agent bank, entered into a second Note Purchase Agreement (the 2006 Note Purchase Agreement) with Metropolitan Life Insurance Company, Metlife Insurance Company of Connecticut and Great-West Life & Annuity Insurance Company, whereby the Company issued and sold \$55,000,000 of Floating Rate Senior Notes, Series 2006-A, due September 30, 2011 (the Floating Rate Senior Notes), the proceeds of which were used to repay a portion of the Company's outstanding indebtedness under its Financing Agreement. Obligations under the Financing Agreement, the Fixed Rate Senior Notes and the Floating Rate Senior Notes are unsecured and contain customary covenants and events of default. The Company was in compliance with these covenants as of September 30, 2007. Under the Financing Agreement, the 2004 Note Purchase Agreement and the

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2006 Note Purchase Agreement, the Company is allowed to pay cash dividends. At September 30, 2007, the total balance outstanding under the Financing Agreement, the Fixed Rate Senior Notes and the Floating Rate Senior Notes was \$100,000,000. Amounts outstanding under the Financing Agreement are payable on August 27, 2009, with interest payments due quarterly. Interest payments on the Fixed Rate Senior Notes are due semi-annually, while interest payments on the Floating Rate Senior Notes are due quarterly. Obligations under the Financing Agreement, the 2004 Note Purchase Agreement and the 2006 Note Purchase Agreement are the only contractual obligations or commercial borrowing commitments of the Company.

Cash provided by operations was \$56.7 million in the first nine months of 2007 compared to \$63.9 million of cash used by operations in the first nine months of 2006. The increase in cash provided by operations resulted primarily from the much smaller increase in accounts receivable of \$31.6 million in the first nine months of 2007 versus an increase of \$127.3 million in 2006 along with a decrease in inventory of \$14.7 million in 2007 versus an increase of \$46.4 million in 2006, offset by the \$77.1 million decrease in net income in the first nine months of 2007 versus the first nine months of 2006. The large increases in accounts receivable and inventory in 2006 were primarily the result of the significant increases in copper prices in 2006 versus 2005. In 2006, copper prices increased the dollar value of inventory on hand and drove the sales prices for copper building wire higher resulting in the increased accounts receivable balance. Net income decreased due to the reasons highlighted in Results of Operations, above.

Cash used in investing activities increased to \$21.4 million in the first nine months of 2007 from \$19.1 million in the first nine months of 2006. In 2006, the funds were used primarily to construct the new 160,000 square foot armored cable plant and to purchase manufacturing equipment for the new plant. In 2007, the funds were primarily used to construct a new office building. The \$682,000 used in and the \$115.0 million of cash provided by financing activities in the first nine months of 2007 and 2006, respectively, were a result of the Company's decrease in 2007 and increase in 2006 of the outstanding bank revolving debt, which is used primarily to fund the Company's working capital requirements as discussed above.

During the remainder of 2007, the Company expects its capital expenditures will consist primarily of additional plant and equipment for its building wire operations. The total capital expenditures for all of 2007 associated with these projects are currently estimated to be in the \$25.0 to \$28.0 million range. The Company will continue to manage its working capital requirements. These requirements may increase as a result of sales increases and may be impacted by the price of copper and other factors. The Company believes that the cash flow from operations and the financing available under the Financing Agreement will satisfy working capital and capital expenditure requirements during 2007.

## **Information Regarding Forward Looking Statements**

This report on Form 10-Q contains various forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) and infor