

ENCORE WIRE CORP  
Form 10-Q  
August 04, 2011

**Table of Contents**

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

(Mark One)

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

**For the quarterly period ended June 30, 2011**  
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: 000-20278**

**ENCORE WIRE CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**75-2274963**

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

**1329 Millwood Road**

**McKinney, Texas**

(Address of principal executive offices)

**75069**

(Zip Code)

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

**N/A**

(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  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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, par value \$0.01, outstanding as of August 4, 2011: 23,292,475



**ENCORE WIRE CORPORATION**  
**FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011**

	Page No.
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements.</u></b>	
<u>Consolidated Balance Sheets June 30, 2011 (Unaudited) and December 31, 2010</u>	1
<u>Consolidated Statements of Income (Unaudited) Quarters and Six Months ended June 30, 2011 and June 30, 2010</u>	3
<u>Consolidated Statements of Cash Flows (Unaudited) Six Months ended June 30, 2011 and June 30, 2010</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	9
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	14
<u>Item 4. Controls and Procedures.</u>	14
 <b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings.</u>	15
<u>Item 1A. Risk Factors.</u>	15
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	15
<u>Item 6. Exhibits.</u>	15
<u>Signatures</u>	16
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

---

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**ENCORE WIRE CORPORATION  
CONSOLIDATED BALANCE SHEETS

In Thousands of Dollars	June 30, 2011 (Unaudited)	December 31, 2010 (See Note)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 46,802	\$ 103,252
Accounts receivable (net of allowance of \$2,579 and \$2,582)	246,750	190,364
Inventories	55,155	42,104
Income taxes receivable	975	
Deferred income taxes receivable	4,753	4,485
Prepaid expenses and other	2,621	1,892
 Total current assets	 357,056	 342,097
Property, plant and equipment at cost:		
Land and land improvements	17,971	17,971
Construction-in-progress	8,758	15,564
Buildings and improvements	75,611	69,440
Machinery and equipment	179,993	174,916
Furniture and fixtures	7,440	7,066
 Total property, plant and equipment	 289,773	 284,957
Accumulated depreciation	(155,579)	(149,972)
 Property, plant and equipment net	 134,194	 134,985
Other assets	222	194
 Total assets	 \$ 491,472	 \$ 477,276

Note: The consolidated balance sheet at December 31, 2010, as presented, is derived from the audited consolidated financial statements at that date.

See accompanying notes.

**Table of Contents**

ENCORE WIRE CORPORATION  
CONSOLIDATED BALANCE SHEETS (continued)

In Thousands of Dollars, Except Share Data	June 30, 2011 (Unaudited)	December 31, 2010 (See Note)
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 30,070	\$ 32,897
Accrued liabilities	21,969	23,191
Income taxes payable		2,065
<b>Total current liabilities</b>	<b>52,039</b>	<b>58,153</b>
Non-current deferred income taxes	12,018	11,746
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares 2,000,000; none issued		
Common stock, \$.01 par value:		
Authorized shares 40,000,000; Issued shares 26,442,752 and 26,366,752	264	264
Additional paid-in capital	45,893	45,040
Treasury stock, at cost 3,150,277 and 3,150,277 shares	(21,294)	(21,294)
Retained earnings	402,552	383,367
<b>Total stockholders' equity</b>	<b>427,415</b>	<b>407,377</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 491,472</b>	<b>\$ 477,276</b>

Note: The consolidated balance sheet at December 31, 2010, as presented, is derived from the audited consolidated financial statements at that date.

See accompanying notes.

**Table of Contents**

ENCORE WIRE CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

In Thousands, Except Per Share Data	Quarter Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	\$ 309,469	\$ 236,094	\$ 612,820	\$ 411,323
Cost of goods sold	278,837	209,179	548,432	373,807
Gross profit	30,632	26,915	64,388	37,516
Selling, general, and administrative expenses	16,083	14,068	34,232	26,052
Operating income	14,549	12,847	30,156	11,464
Net interest and other (income) expenses		94	(5)	2,797
Income before income taxes	14,549	12,753	30,161	8,667
Provision for income taxes	5,088	4,618	10,046	2,998
Net income	\$ 9,461	\$ 8,135	\$ 20,115	\$ 5,669
Net income per common and common equivalent share basic	\$ 0.41	\$ 0.35	\$ 0.87	\$ 0.24
Weighted average common and common equivalent shares basic	23,264	23,171	23,241	23,165
Net income per common and common equivalent share diluted	\$ 0.40	\$ 0.35	\$ 0.86	\$ 0.24
Weighted average common and common equivalent shares diluted	23,405	23,334	23,392	23,246
Cash dividends declared per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.04

See accompanying notes.

**Table of Contents**

ENCORE WIRE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

In Thousands of Dollars	Six Months Ended June 30,	
	2011	2010
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 20,115	\$ 5,669
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,867	6,861
Deferred income taxes	4	576
Long-term debt prepayment fee		2,919
Other	(305)	(82)
Changes in operating assets and liabilities:		
Accounts receivable	(56,386)	(49,287)
Inventories	(13,051)	2,571
Trade accounts payable and accrued liabilities	(4,050)	6,681
Other assets and liabilities	(773)	1,120
Current income taxes receivable / payable	(3,040)	1,607
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(50,619)</b>	<b>(21,365)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property, plant and equipment	(5,515)	(11,175)
Proceeds from sale of assets		10
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(5,515)</b>	<b>(11,165)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of notes payable		(102,919)
Deferred financing fees		(50)
Proceeds from issuances of common stock	613	135
Dividend paid	(929)	(927)
Excess tax benefits of options exercised		25
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(316)</b>	<b>(103,736)</b>
Net increase (decrease) in cash and cash equivalents	(56,450)	(136,266)
Cash and cash equivalents at beginning of period	103,252	226,769



Edgar Filing: ENCORE WIRE CORP - Form 10-Q

Cash and cash equivalents at end of period	\$ 46,802	\$ 90,503
--	-----------	-----------

See accompanying notes.

4

---

**Table of Contents**

ENCORE WIRE CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)  
 June 30, 2011

**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 annual 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, 2010.

**NOTE 2 INVENTORIES**

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

In Thousands of Dollars	June 30, 2011	December 31, 2010
Raw materials	\$ 18,465	\$ 27,092
Work-in-process	31,673	19,889
Finished goods	93,244	81,940
	143,382	128,921
Adjust to LIFO cost	(88,227)	(86,817)
Lower of cost or market adjustment		
	\$ 55,155	\$ 42,104

LIFO pools are established 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.

During the first six months of 2011, the Company did not liquidate any LIFO inventory layers established in prior years. During the first six months of 2010, the Company liquidated a portion of the layer established in 2005. As a result, under the LIFO method, this inventory layer was liquidated at historical costs that were less than current costs, which favorably impacted net income for the second quarter of 2010 by \$644,000 and the first six months of 2010 by \$1,480,000.

**Table of Contents****NOTE 3 ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

In Thousands of Dollars	June 30, 2011	December 31, 2010
Sales volume discounts payable	\$ 15,397	\$ 14,997
Property taxes payable	1,363	2,648
Commissions payable	2,638	2,290
Accrued salaries	1,891	2,591
Other accrued liabilities	680	665
	\$ 21,969	\$ 23,191

**NOTE 4 INCOME TAXES**

Income taxes were accrued at an effective rate of 35.0% in the second quarter of 2011 versus 36.2% in the second quarter of 2010, consistent with the Company's estimated liabilities. For the six months ended June 30, the Company's effective tax rate was approximately 33.3% in 2011 and 34.6% in 2010.

**NOTE 5 NET EARNINGS (LOSS) PER SHARE**

Net earnings (loss) 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 (loss) per share:

In Thousands	Quarters Ended	
	June 30, 2011	June 30, 2010
Numerator:		
Net income (loss)	\$ 9,461	\$ 8,135
Denominator:		
Denominator for basic earnings per share - weighted average shares	23,264	23,171
Effect of dilutive securities:		
Employee stock options	141	163
Denominator for diluted earnings per share - weighted average shares	23,405	23,334

**Table of Contents**

The number of weighted average employee stock options excluded from the determination of diluted earnings per share for the second quarter was 80,500 in 2011 and 211,857 in 2010. Such options were anti-dilutive for the respective periods.

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

In Thousands	Six Months Ended	
	June 30, 2011	June 30, 2010
Numerator:		
Net income	\$ 20,115	\$ 5,669
Denominator:		
Denominator for basic earnings per share    weighted average shares	23,241	23,165
Effect of dilutive securities:		
Employee stock options	151	81
Denominator for diluted earnings per share    weighted average shares	23,392	23,246

The number of weighted average employee stock options excluded from the determination of diluted earnings per share for the six months ended June 30 was 80,500 in 2011 and 347,758 in 2010. Such options were anti-dilutive for the respective periods.

**NOTE 6    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 (as amended, the Financing Agreement). The Financing Agreement extends through August 6, 2013, and provides for maximum borrowings of the lesser of \$150,000,000 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 June 30, 2011, as computed under the Financing Agreement, was \$149,660,000. Borrowings under the line of credit bear interest, at the Company's option, at either (1) LIBOR plus a margin that varies from 1.0% 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. At June 30, 2011, there were no borrowings outstanding under the Financing Agreement. Obligations under the Financing Agreement are the only contractual borrowing obligations or commercial borrowing commitments of the Company.

**Table of Contents**

Obligations under the Financing Agreement are unsecured and contain customary covenants and events of default. The Company was in compliance with the covenants as of June 30, 2011.

**NOTE 7 STOCK REPURCHASE AUTHORIZATION**

On November 10, 2006, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 1,000,000 shares of its common stock through December 31, 2007 on the open market or through privately negotiated transactions at prices determined by the President of the Company. The Company's Board of Directors has subsequently authorized annual extensions of this stock repurchase program through March 31, 2012 and has authorized the repurchase of up to 2,610,000 shares of its common stock. The Company did not repurchase any shares of its stock in the first six months of 2011 or 2010.

**NOTE 8 CONTINGENCIES**

On July 7, 2009, Southwire Company, a Delaware corporation ( "Southwire" ), filed a complaint for patent infringement against the Company and Cerro Wire, Inc. ( "Cerro" ) in the United States District Court for the Eastern District of Texas. In the complaint, Southwire alleged that the Company infringed one or more claims of United States Patent No. 7,557,301 (the "301 patent" ), entitled "Method of Manufacturing Electrical Cable Having Reduced Required Force for Installation," by making and selling electrical cables, including the Company's Super Slick cables. The case has been transferred to the Northern District of Georgia and the parties have agreed to stay it pending reexamination of the "301 patent" by the United States Patent and Trademark Office (the "USPTO" ). On June 23, 2011, the USPTO issued an office action in the reexamination finally rejecting all the claims of the "301 patent." Southwire has until August 7, 2011 to file a written response with the USPTO.

On August 24, 2009, Southwire filed a second complaint for patent and trademark infringement against the Company in the United States District Court for the Eastern District of Texas. In the second complaint, Southwire alleged that the Company infringed one or more of the claims of United States Patent No. 6,486,395 entitled "Interlocked Metal Clad Cable" (the "395 Patent" ) by making and selling electrical cables, including the Company's MCMP Multipurpose cables. Southwire also alleged that the Company infringed Southwire's United States Trademark Registration No. 3,292,777 for the mark, "MCAP." The second complaint also alleged a variety of related federal and state statutory and common law claims including unfair competition. The Company filed counterclaims against Southwire alleging claims of statutory and common law unfair competition, tortious interference with existing and prospective business relations, misappropriation and claims for declaratory relief. The parties dismissed without prejudice all claims and counterclaims of the case. An agreed dismissal order was entered April 14, 2011.

On July 2, 2010, the Company filed a complaint against Southwire in the Northern District of Georgia. The complaint alleged that Southwire was using a deceptively misdescriptive trademark on its SimPull products, and that Southwire had made false statements about the Company's Slick Wire products. Southwire's United States Patent No. 7,749,024 (the "024 patent" ) issued on July 6, 2010. The morning the patent issued, the Company amended its complaint to seek a declaratory judgment that the

**Table of Contents**

Company's Slick Wire products do not infringe the '024 patent. Later that same day, Southwire filed a separate complaint against the Company and Cerro Wire in the Eastern District of Texas alleging infringement of the '024 patent. The Company's complaint against Southwire was stayed by agreement on April 11, 2011. The case will remain stayed until the USPTO issues a certificate of reexamination of the '024 patent. The complaint filed by Southwire in the Eastern District of Texas has been voluntarily dismissed and Southwire will have the option to pursue its claims against the Company in the Northern District of Georgia, once the reexamination is completed. On October 8, 2010, the Company filed a request with the USPTO for an *inter partes* reexamination of the '024 patent. On November 9, 2010, the USPTO ordered the reexamination of the '024 patent. In ordering reexamination of Southwire's '024 patent, the USPTO determined that the Company's submission of prior art raised a substantial new question of patentability of the claims of the '024 patent. On December 3, 2010, the USPTO issued a non-final office action rejecting all of the claims of the '024 Patent. Southwire filed a response to the non-final office action on February 3, 2011, which included legal arguments and supporting technical declarations. The Company filed its comments to the Southwire response on March 3, 2011, including points and authorities, legal arguments, and supporting technical declarations. The reexamination continues and the parties are awaiting the Examiner's action on the parties' latest filings.

Southwire's complaints sought unspecified damages and injunctive relief. At this time, all pending litigation between Encore and Southwire has been dismissed or stayed pending the outcome of the reexaminations of the '024 and '301 Patents.

The potentially applicable factual and legal issues related to the above claims asserted against the Company have not been resolved. The Company is currently unable to determine if liability is probable, and the Company cannot reasonably estimate the amount of any potential loss associated with these matters. Accordingly, the Company has not recorded a liability for these pending lawsuits. The Company disputes all of Southwire's claims and alleged damages and intends to vigorously defend the lawsuits and vigorously pursue its own claims against Southwire if and when the litigation resumes. The Company is also a party to litigation and claims arising out of the ordinary business of the Company.

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

**General**

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

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 plants operate 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 81.1% and 73.5% of the Company's cost

**Table of Contents**

of goods sold during fiscal 2010 and 2009, respectively. The price of copper fluctuates, depending on general economic conditions and in relation to supply and demand and other factors, which causes 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 six month periods ended June 30, 2011 and 2010. 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, 2010.

**Results of Operations**

**Quarter Ended June 30, 2011 Compared to Quarter Ended June 30, 2010**

Net sales for the second quarter of 2011 were \$309.5 million compared with net sales of \$236.1 million for the second quarter of 2010. This dollar increase was primarily the result of a 28.6% increase in the price of wire sold and a 1.9% increase in the unit volume of product shipped. Unit volume is measured in pounds of copper contained in the wire shipped during the period. The average cost per pound of raw copper purchased increased 30.7% in the second quarter of 2011 compared to the second quarter of 2010, and was the principal driver of the increased average sales price of wire. Fluctuations in sales prices are primarily a result of changing copper raw material prices and product price competition.

Cost of goods sold increased to \$278.8 million, or 90.1% of net sales, in the second quarter of 2011, compared to \$209.2 million, or 88.6% of net sales, in the second quarter of 2010. Gross profit increased to \$30.6 million, or 9.9% of net sales, in the second quarter of 2011 versus \$26.9 million, or 11.4% of net sales, in the second quarter of 2010. The increased gross profit dollars resulted primarily from the large sales dollar increase while the small decrease in gross profit margin percentage was primarily the result of the increased total cost of all raw materials, including the LIFO adjustment, as a percentage of net sales. This total cost of raw materials percentage increased from 81.1% in the second quarter of 2010 to 83.7% in the second quarter of 2011.

Inventories are stated at the lower of cost, as calculated 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 electrical building wire products. The Company maintains its inventory costs and cost of goods sold on a first-in, first-out (FIFO) basis and makes a monthly 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 and finished wire prices as of the end of each reporting period. The Company performs a lower of cost or market calculation quarterly. Based on copper prices as of June 30, 2011, no LCM adjustment was required. However, decreases in copper prices could necessitate establishing an LCM reserve in future periods. 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

**Table of Contents**

in which the reduction occurs to be included in costs of goods sold for that period at the different price. Copper costs were mildly volatile during the quarter, falling early and then recovering slightly near the end of the quarter. Primarily due to decreasing copper costs, slightly offset by a small increase in inventory quantities on hand during the second quarter of 2011, a LIFO adjustment was recorded decreasing cost of sales by \$6.8 million during the quarter.

Selling expenses, consisting of commissions and freight, for the second quarter of 2011 were \$12.6 million, or 4.1% of net sales, compared to \$10.0 million, or 4.3% of net sales, in the second quarter of 2010. Commissions paid to independent manufacturers' representatives are paid as a relatively stable percentage of sales, and therefore, rose \$1.6 million in concert with the increased sales dollars. Additionally, freight costs increased by \$1.0 million due partially to the 1.9% increase in unit sales. Freight barely declined as a percentage of net sales due to the fact that freight rose on a cost per pound basis due to increased fuel prices, smaller customers order quantities and small shifts in demand from various areas of the country. General and administrative expenses decreased slightly to \$3.5 million, or 1.1% of net sales, in the second quarter of 2011 compared to \$4.0 million, or 1.7% of net sales, in the second quarter of 2010. The decrease was primarily the result of a gain on the exchange of assets of \$534,000 recognized in 2011. Equipment with a fair market value of \$7.3 million was traded (along with \$800,000 of cash) for new equipment worth \$8.1 million. The provision for bad debts was \$0 and \$75,000 in the second quarters of 2011 and 2010, respectively.

Net interest and other (income) expense was zero in the second quarter of 2011 versus \$94,000 of expense in the second quarter of 2010. Income taxes were accrued at an effective rate of 35.0% in the second quarter of 2011, versus an effective rate of 36.2% in the second quarter of 2010, commensurate with the Company's estimated liabilities. As a result of the foregoing factors, the Company's net income increased to \$9.5 million in the second quarter of 2011 from \$8.1 million in the second quarter of 2010.

**Six Months Ended June 30, 2011 compared to Six Months Ended June 30, 2010**

Net sales for the first six months of 2011 were \$612.8 million compared with net sales of \$411.3 million for the first half of 2010. This dollar increase was the result of a 31.5% increase in the average price of wire sold and a 13.4% increase 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 increased 31.9% in the first six months of 2011 compared to the first six months of 2010, but increased less than the selling price of wire per copper pound did in dollar terms. In comparing the first half of 2011 to the first half of 2010, the average sales price of wire that contained a pound of copper increased more than the average price of copper purchased during the period. Margins expanded as the spread between the price of wire sold and the cost of raw copper purchased increased by 30.4%, due primarily to industry pricing discipline. Fluctuations in sales prices are primarily a result of changing copper raw material prices and product price competition.

Cost of goods sold increased to \$548.4 million in the first six months of 2011, compared to \$373.8 million in the first six months of 2010. Gross profit increased to \$64.4 million,



**Table of Contents**

or 10.5% of net sales, in the first six months of 2011 versus \$37.5 million, or 9.1% of net sales, in the first six months of 2010. The increased gross profit dollars were primarily the result of the 49.0% increase in net sales dollars and the increased copper spreads in the first six months of 2011 versus the same period in 2010 as discussed above.

As a result of decreasing copper costs in the second quarter offset slightly by a small increase in the amount of inventory on hand during the first six months of 2011, a LIFO adjustment was recorded increasing cost of sales by \$1.4 million during the six month 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 an LCM adjustment against the related inventory balance, which would result in a negative impact on net income.

Selling expenses for the first six months of 2011 increased to \$24.3 million, or 4.0% of net sales, compared to \$17.7 million, or 4.3% of net sales, in the same period of 2010. Commissions paid to independent manufacturers representatives are calculated as a percentage of sales, and therefore, rose \$4.7 million in concert with the increased sales dollars. Freight costs increased \$1.9 million due to the increase in unit sales and other factors noted in the quarterly analysis above, but declined as a percentage of net sales due to the large net sales dollar increase.

Commissions were 2.5% and 2.6% in the first six months of 2011 and 2010, respectively. General and administrative expenses increased to \$10.0 million, or 1.6% of net sales, in the first six months of 2011 compared to \$8.2 million, or 2.0% of net sales, in the same period of 2010. The general and administrative costs rose primarily due to increased legal and administrative costs, while decreasing slightly as a percentage of net sales. The provision for bad debts was zero and \$150,000 in the first six months of 2011 and 2010, respectively.

Net interest and other expense (income) was \$5,000 of income in the first six months of 2011 compared to a \$2.8 million expense in the first half of 2010, due primarily to a \$2.6 million one-time charge associated with the early retirement of the Company's \$100 million in long-term notes payable in the first half of 2010. Income taxes were accrued at an effective rate of 33.3% in the first six months of 2011 versus 34.6% in the first six months of 2010 consistent with the Company's estimated liabilities.

As a result of the foregoing factors, the Company's net income increased to \$20.1 million in the first half of 2011 from \$5.7 million in the first half of 2010.

**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 working capital necessary to finance receivables and inventory. Capital expenditures have historically been necessary to expand and update 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. Prior to building the current substantial cash balance, the Company historically used its revolving credit facility to manage day to day operating cash needs as required by daily fluctuations in working capital, and has the facility in place should such a need arise in the future.

**Table of Contents**

The Company is party to a Financing Agreement with two banks, Bank of America, N.A., as Agent, and Wells Fargo Bank, National Association (as amended, the Financing Agreement). The Financing Agreement extends through August 6, 2013, and provides for maximum borrowings of the lesser of \$150,000,000 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 June 30, 2011, as computed under the Financing Agreement, was \$149,660,000. Borrowings under the line of credit bear interest, at the Company's option, at either (1) LIBOR plus a margin that varies from 1.0% 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. At June 30, 2011, there were no borrowings outstanding under the Financing Agreement. Obligations under the Financing Agreement are the only contractual borrowing obligations or commercial borrowing commitments of the Company.

Obligations under the Financing Agreement are unsecured and contain customary covenants and events of default. The Company was in compliance with the covenants as of June 30, 2011.

Cash used in operating activities was \$50.6 million in the first six months of 2011 compared to \$21.4 million in the first six months of 2010. The following changes in components of cash flow were notable. The Company had net income of \$20.1 million in the first six months of 2011 versus net income of \$5.7 million in the first six months of 2010. Accounts receivable increased in the first six months of 2011 and 2010, resulting in a \$56.4 million and a \$49.3 million use of cash, respectively. Accounts receivable increased in concert with the increased dollar sales in both years versus the prior years. Inventory increased in 2011, resulting in a \$13.1 million use of cash, while inventory decreased in 2010, which provided a \$2.6 million source of cash. This resulted in an overall decrease in cash provided of \$15.7 million. Trade accounts payable and accrued liabilities resulted in a \$10.7 million decrease in cash provided in the first half of 2011 versus the first half of 2010 due primarily to the decrease in accounts payable, attributable primarily to the timing of inventory receipts at quarter end. These changes in cash flow were the primary drivers of the \$29.2 million decrease in cash flow from operations in the first half of 2011 versus the first half of 2010.

Cash used in investing activities decreased to \$5.5 million in the first six months of 2011 from \$11.2 million in the first six months of 2010. The funds were used primarily for equipment purchases in both years. The Company used \$0.3 million of cash in financing activities in the first six months of 2011 versus the \$103.7 million of cash used in the first six months of 2010. The large amount of cash used in 2010 was primarily the result of the Company's early retirement of long-term notes payable. In the first half of 2011, the Company's revolving line of credit remained at \$0. The Company's cash balance was \$46.8 million at June 30, 2011.

During the remainder of 2011, the Company expects its capital expenditures will consist primarily of purchases of additional plant and equipment for its building wire operations. The total capital expenditures for all of 2011 associated with these projects are currently estimated to be between \$16 million and \$18 million. The Company will continue to

**Table of Contents**

manage its working capital requirements. These requirements may increase as a result of increased sales and may be impacted by the price of copper. The Company believes that the current cash balance, cash flow from operations, and the financing available under the Financing Agreement will satisfy working capital and capital expenditure requirements during 2011.

**Information Regarding Forward Looking Statements**

This quarterly 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 information that are based on management's belief as well as assumptions made by and information currently available to management. The words believes, estimates, anticipates, plans, seeks, expects, intends and similar expressions identify some of the forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expected. Among the key factors that may have a direct bearing on the Company's operating results are fluctuations in the economy and in the level of activity in the building and construction industry, demand for the Company's products, the impact of price competition and fluctuations in the price of copper. For more information regarding forward looking statements see Information Regarding Forward Looking Statements in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010, which is hereby incorporated by reference.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

There have been no material changes from the information provided in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 4. Controls and Procedures.**

The Company maintains controls and procedures designed to ensure that information required to be disclosed by it in the reports it files with or submits to the Securities and Exchange Commission (the SEC) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure. Based on an evaluation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report conducted by the Company's management, with the participation of the Chief Executive and Chief Financial Officers, the Chief Executive and Chief Financial Officers concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files with or submits to the SEC is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by the

**Table of Contents**

Company in such reports is accumulated and communicated to the Company's management, including the Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure. There have been no changes in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the period covered by this report.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Please refer to Note 8 Contingencies in Notes to Consolidated Financial Statements of this quarterly report on Form 10-Q for information on legal proceedings.

**Item 1A. Risk Factors.**

There have been no material changes to the Company's risk factors as disclosed in Item 1A, Risk Factors, in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On November 10, 2006, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to 1,000,000 shares of its common stock through December 31, 2007 on the open market or through privately negotiated transactions at prices determined by the President of the Company. The Company's Board of Directors has subsequently authorized annual extensions of this stock repurchase program through March 31, 2012 and has authorized the repurchase of up to 2,610,000 shares of its common stock. The Company did not repurchase any shares of its stock in the first six months of 2011 or 2010.

**Item 6. Exhibits.**

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this Form 10-Q.

**Table of Contents**

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.

ENCORE WIRE CORPORATION  
(Registrant)

Dated: August 4, 2011

/s/ DANIEL L. JONES  
Daniel L. Jones, President and  
Chief Executive Officer

Dated: August 4, 2011

/s/ FRANK J. BILBAN  
Frank J. Bilban,  
Vice President Finance,  
Chief Financial Officer,  
Treasurer and Secretary

16

---

**Table of Contents**

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation of Encore Wire Corporation and all amendments thereto (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, and incorporated herein by reference).
3.2	Second Amended and Restated Bylaws of Encore Wire Corporation, as amended through December 13, 2007 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, and incorporated herein by reference).
31.1	Certification by Daniel L. Jones, President and Chief Executive Officer of the Company, dated August 4, 2011 and submitted pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Frank J. Bilban, Vice President Finance, Treasurer, Secretary and Chief Financial Officer of the Company, dated August 4, 2011 and submitted pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Daniel L. Jones, President and Chief Executive Officer of the Company, dated August 4, 2011 as required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Frank J. Bilban, Vice President Finance, Treasurer, Secretary and Chief Financial Officer, dated August 4, 2011 as required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document