

ENCORE WIRE CORP /DE/

Form 10-Q

August 08, 2006

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

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

For the quarterly period ended June 30, 2006

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)

**1410 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 July 31, 2006: 23,266,952

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FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

ENCORE WIRE CORPORATION
CONSOLIDATED BALANCE SHEETS

| In Thousands of Dollars | June 30, 2006 (Unaudited) | December 31, 2005 (See Note) |
|---|---------------------------------|---------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 2,760 | \$ 2,622 |
| Accounts receivable (net of allowance of \$780 and \$690) | 271,215 | 164,930 |
| Inventories (Note 3) | 134,157 | 67,932 |
| Prepaid expenses and other assets | 15,156 | 18,628 |
| Current deferred income taxes | 3,046 | 1,121 |
| | | |
| Total current assets | 426,334 | 255,233 |
| Property, plant and equipment-on the basis of cost: | | |
| Land | 9,406 | 8,375 |
| Construction in progress | 11,341 | 12,113 |
| Buildings and improvements | 47,065 | 38,063 |
| Machinery and equipment | 125,910 | 120,326 |
| Furniture and fixtures | 3,916 | 3,624 |
| | | |
| Total property, plant, and equipment | 197,638 | 182,501 |
| | | |
| Accumulated depreciation and amortization | 94,797 | 89,364 |
| | | |
| | 102,841 | 93,137 |
| | | |
| Other assets | 97 | 106 |
| | | |
| Total assets | \$ 529,272 | \$ 348,476 |

Note: The consolidated balance sheet at December 31, 2005, 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 and Per Share Data | June 30, 2006 (Unaudited) | December 31, 2005 (See Note) |
|---|---------------------------------|---------------------------------------|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 35,667 | \$ 17,277 |
| Accrued liabilities | 20,920 | 19,304 |
| Current income taxes payable | 22,833 | 19,540 |
| | | |
| Total current liabilities | 79,420 | 56,121 |
| | | |
| Non-current deferred income taxes | 10,026 | 10,620 |
| Long term notes payable | 152,236 | 70,438 |
| Other long term liabilities | 2,314 | 762 |
| | | |
| Stockholders equity: | | |
| Common stock, \$.01 par value: | | |
| Authorized 40,000,000 shares; issued and outstanding shares 26,025,902 and 25,939,103 | 260 | 259 |
| Additional paid-in capital | 40,476 | 38,932 |
| Treasury stock (2,758,950 and 2,758,950 shares, at cost) | (15,275) | (15,275) |
| Retained earnings | 259,815 | 186,619 |
| | | |
| Total stockholders equity | 285,276 | 210,535 |
| | | |
| Total liabilities and stockholders equity | \$ 529,272 | \$ 348,476 |

Note: The consolidated balance sheet at December 31, 2005, 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 June 30, | | Six Months Ended June 30, | |
|---|---------------------------|--------------|------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net sales | \$ 362,048 | \$ 169,265 | \$ 614,097 | \$ 306,459 |
| Cost of goods sold | 255,195 | 153,894 | 467,871 | 280,340 |
| Gross profit | 106,853 | 15,371 | 146,226 | 26,119 |
| Selling, general, and administrative expenses | 16,733 | 10,898 | 30,172 | 20,486 |
| Operating income (loss) | 90,120 | 4,473 | 116,054 | 5,633 |
| Net interest & other expenses | 1,945 | 770 | 3,078 | 1,602 |
| Income (loss) before income taxes | 88,175 | 3,703 | 112,976 | 4,031 |
| Provision (benefit) for income taxes | 31,116 | 1,277 | 39,780 | 568 |
| Net income (loss) | \$ 57,059 | \$ 2,426 | \$ 73,196 | \$ 3,463 |
| Net income (loss) per common and common equivalent shares basic | \$ 2.45 | \$.10 | \$ 3.15 | \$.15 |
| Weighted average common and common equivalent shares basic | 23,262 | 23,107 | 23,238 | 23,107 |
| Net income (loss) per common and common equivalent shares diluted | \$ 2.41 | \$.10 | \$ 3.09 | \$.15 |
| Weighted average common and common equivalent shares diluted | 23,719 | 23,393 | 23,709 | 23,413 |
| Cash dividends declared per share | \$ | \$ | \$ | \$ |

See accompanying notes.

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ENCORE WIRE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| In Thousands of Dollars | Six Months Ended June 30, | |
|---|------------------------------|-----------------|
| | 2006 | 2005 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 73,196 | \$ 3,463 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 5,748 | 6,143 |
| Provision for bad debts | 90 | 90 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (106,375) | (15,948) |
| Inventory | (66,225) | (10,610) |
| Accounts payable and accrued liabilities | 20,006 | 1,721 |
| Other assets and liabilities | 3,441 | (2,648) |
| Current income taxes receivable/payable | 773 | 197 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (69,346) | (17,592) |
| INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (15,592) | (4,633) |
| Change in long-term investments | | |
| Proceeds from sale of equipment | 181 | 196 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (15,411) | (4,437) |
| FINANCING ACTIVITIES | | |
| Borrowings (repayments) under notes payable | 83,350 | 20,418 |
| Proceeds from issuance of common stock | 794 | 29 |
| Tax benefit of options exercised | 751 | |
| Purchase of treasury stock | | |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 84,895 | 20,447 |
| Net increase (decrease) in cash | 138 | (1,582) |
| Cash at beginning of period | 2,622 | 2,640 |
| Cash at end of period | \$ 2,760 | \$ 1,058 |

See accompanying notes.

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ENCORE WIRE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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, 2005.

NOTE 2 STOCK BASED COMPENSATION

The Company has one stock option plan that provides for the grant of stock options to its employees. The Company grants stock option awards at prices equal to the market value of its stock on the date of grant. These options vest ratably over a period of five years from the time the options are granted with maximum terms of ten years. Prior to December 31, 2005, the Company applied the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). In accordance with the provisions of SFAS 123, the Company applied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for its plan and, accordingly, did not recognize compensation expense for the plan because stock options were issued at exercise prices equal to the market value of its stock on the date of grant.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which supersedes SFAS 123 and APB 25. SFAS 123R requires all share-based payments to employees to be recognized in the financial statements based on their fair values using an option-pricing model, such as the Black-Scholes model, at the date of grant. The Company elected to use the Black-Scholes model and the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options beginning in the first quarter of adoption. For all unvested options outstanding as of January 1, 2006, compensation expense previously measured under SFAS No. 123, but unrecognized, will be recognized using the straight-line method over the remaining vesting period, net of forfeitures. For share-based payments granted subsequent to January 1, 2006, compensation expense, based on the fair value on the date of grant, as defined by SFAS 123R, will be recognized using the straight-line method from the date of grant over the related service period of the employee receiving the award. The Company did not grant any stock options during the second quarter of 2006.

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SFAS 123R requires the estimation of forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period should actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change and which impacts the amount of un-recognized compensation expense to be recorded in future periods. SFAS No. 123R reduced income from continuing operations before income taxes for the six-month period ended June 30, 2006 by approximately \$194,983, and did not appreciably impact net income per common share. As of June 30, 2006, total unrecognized compensation cost related to stock option awards granted prior to January 1, 2006, was approximately \$249,090 and the related weighted-average period over which it is expected to be recognized is approximately 1.4 years.

The following presents a summary of stock options activity and changes for the six months ended June 30, 2006 (aggregate intrinsic value in thousands):

| | Number Of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--|---------------------------------|--|--|--|
| Balance outstanding at December 31, 2005 | 639,825 | \$ 6.73 | | |
| Granted | 0 | 0 | | |
| Exercised | 86,799 | 7.69 | | |
| Forfeited/Cancelled | 1,500 | 7.70 | | |
| Balance outstanding at June 30, 2006 | 551,526 | 6.25 | 4.28 | \$ 16,373 |
| Options exercisable at June 30, 2006 | 480,046 | \$ 5.82 | 4.06 | \$ 14,457 |

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

Inventories (in thousands) consisted of the following:

| | June 30, 2006 | December 31, 2005 |
|------------------------------------|------------------|-------------------------|
| Raw materials | \$ 17,122 | \$ 11,288 |
| Work-in-process | 21,778 | 8,428 |
| Finished goods | 184,042 | 84,665 |
| | 222,942 | 104,381 |
| Adjust to LIFO cost | (88,785) | (36,449) |
| | 134,157 | 67,932 |
| Lower of Cost or Market Adjustment | | |
| | \$ 134,157 | \$ 67,932 |

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many forces beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

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Net income (loss) per common and common equivalent share is 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 income per share:

| | Quarter Ended 6/30/06 | Quarter Ended 6/30/05 |
|---|-----------------------------|--------------------------|
| Numerator: | | |
| Net income | \$ 57,058,821 | \$ 2,426,396 |
| Denominator: | | |
| Denominator for basic earnings per share weighted average shares | 23,261,754 | 23,107,499 |
| Effect of dilutive securities: | | |
| Employee stock options | 457,439 | 285,657 |
| Denominator for diluted earnings per share weighted average shares | 23,719,194 | 23,393,156 |

The following table sets forth the computation of basic and diluted earnings per share:

| | Six Months Ended 6/30/06 | Six Months Ended 6/30/05 |
|---|--------------------------------|--------------------------------|
| Numerator: | | |
| Net income | \$ 73,196,019 | \$ 3,463,229 |
| Denominator: | | |
| Denominator for basic earnings per share weighted average shares | 23,237,708 | 23,106,618 |
| Effect of dilutive securities: | | |
| Employee stock options | 471,158 | 306,237 |
| Denominator for diluted earnings per share weighted average shares | 23,708,866 | 23,412,855 |

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Effective August 27, 2004, the Company through its indirectly wholly-owned subsidiary, Encore Wire Limited, a Texas Limited partnership (Encore Wire Limited), refinanced its unsecured loan facility with two banks (the Financing Agreement) and also arranged for a private placement of debt (the Note Purchase Agreement). The Company is the guarantor of the indebtedness. Obligations under the Financing Agreement and the Note Purchase Agreement are the only contractual obligations or commercial borrowing commitments of the Company. The Financing Agreement was amended May 16, 2006 to expand the Company's line of credit from \$85,000,000 to \$150,000,000, as disclosed in the Company's press release dated May 26, 2006. The Financing Agreement, as amended, extends through August 27, 2009, and provides for maximum borrowings of the lesser of \$150 million 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, 2006, as computed under the Financing Agreement, was \$150 million. The Financing Agreement is with two banks, Bank of America, N.A., as Agent, and Wells Fargo Bank, National Association, and replaces the previous financing agreement.

Concurrent with the Financing Agreement, Encore Wire Limited and the Company, through its agent bank, entered into the 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 referred to as the Purchasers), whereby Encore Wire Limited issued and sold \$45 million of 5.27% Senior Notes, Series 2004-A, due August 27, 2011 (the Senior Notes) to the Purchasers, the proceeds of which were used to repay a portion of the Company's outstanding indebtedness under the previous financing agreement. Through its agent bank, the Company then entered into an interest rate swap agreement to convert the fixed rate on the Senior Notes to a variable rate based on LIBOR plus a fixed adder for the seven-year duration of these notes. As of June 30, 2006, the Company recorded a liability and a corresponding unrealized reduction to Notes Payable on the balance sheet of \$2,313,663 to account for the fair value of the interest rate swap.

The Financing Agreement and the Senior Notes are unsecured and contain customary covenants and events of default. The Company was in compliance with these covenants, as of June 30, 2006. Under the Financing Agreement, the Company is allowed to pay cash dividends. At June 30, 2006, the total balance outstanding under the Financing Agreement and the Senior Notes was \$154.6 million. Amounts outstanding under the Financing Agreement are payable on August 27, 2009, with interest payments due quarterly. Interest payments on the Senior Notes are due semi-annually.

NOTE 6 STOCK REPURCHASE AUTHORIZATION

On November 6, 2001, the Board of Directors of the Company approved a stock repurchase program covering the purchase of up to 450,000 additional shares of its common stock dependent upon market conditions. Common stock purchases under this program were authorized through December 31, 2002 on the open market or through privately negotiated transactions at prices determined by the Chairman of the Board or the President of the Company. As of December 31, 2002, 225,300 shares had been purchased under this authorization. The Board of Directors has extended this program four times, through December 31, 2006 for the remaining 224,700 shares; however there have been no further repurchases of stock since 2002.

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NOTE 7 CONTINGENCIES

The Company is a party to litigation and claims that arise out of the ordinary course of 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 operation or the cash flows of the Company. The Company also 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 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 76.8%, 73.0% and 67.1% of the Company's cost of goods sold during fiscal 2005, 2004 and 2003, 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 copper prices in the future 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, 2006 and 2005. 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, 2005.

Results of Operations

Quarter Ended June 30, 2006 Compared to Quarter Ended June 30, 2005

Net sales for the second quarter of 2006 amounted to \$362.0 million compared with net sales of \$169.3 million for the second quarter of 2005. This dollar increase was primarily the result of a 137% increase in the average price of wire sold. The average cost per pound of raw copper purchased increased 110% in the second quarter of 2006 compared to the second quarter of 2005, and was the principal reason the average sales price for wire increased. These factors resulted in increased gross margins in the second quarter of 2006 versus the second quarter of 2005. Fluctuations in sales prices are primarily a result of changing copper raw material prices and product price competition.

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Cost of goods sold increased to \$255.2 million, or 70.5% of net sales, in the second quarter of 2006, compared to \$153.9 million, or 90.9% of net sales, in the second quarter of 2005. Gross profit increased to \$106.9 million, or 29.5% of net sales, in the second quarter of 2006 versus \$15.4 million, or 9.1% of net sales, in the second quarter of 2005. The increased gross profit and gross margin percentages were primarily the result of industry wide pricing trends that increased the spread between the selling price of copper wire and the purchase cost of raw copper. 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 increasing copper costs and an increase in the amount of inventory on hand during the second quarter 2006, a LIFO adjustment was recorded, increasing cost of sales by \$42.9 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 second quarter of 2006 were \$14.2 million, or 3.9% of net sales, compared to \$8.9 million, or 5.3% of net sales, for the second quarter of 2005. The percentage decrease was due to the decrease in freight costs as a percentage of net sales, driven by the large increase 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 in dollar terms to \$2.5 million, but declined in percentage terms to 0.7% of net sales, in the second quarter of 2006 compared to \$1.9 million, or 1.1% of net sales, in the second quarter of 2005. 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 second quarter of 2006 and 2005.

Net interest and other income and expense was \$1,945,000 in the second quarter of 2006 compared to \$770,000 in the second quarter of 2005. The increase was due primarily to higher average debt balances and higher interest rates during the second quarter of 2006 than during the comparable period in 2005. Taxes were accrued at an effective rate of 35.3% in the second quarter of 2006 consistent with the Company's estimated liabilities.

As a result of the foregoing factors, the Company's net income increased to \$57.1 million in the second quarter of 2006 from \$2.4 million in the second quarter of 2005.

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Six Months Ended June 30, 2006 compared to Six Months Ended June 30, 2005

Net sales for the first six months of 2006 amounted to \$614.1 million compared with net sales of \$306.5 million for the first half of 2005. This dollar increase was primarily the result of a 93.9% increase in the average price of wire sold. The average cost per pound of raw copper purchased increased 76.4% in the first six months of 2006 compared to the first six months of 2005, and was the principal reason the average sales price for wire increased. Fluctuations in sales prices are primarily a result of changing copper raw material prices and product price competition.

Cost of goods sold increased to \$467.9 million in the first six months of 2006, compared to \$280.3 million in the first six months of 2005. Gross profit increased to \$146.2 million, or 23.8% of net sales, in the first six months of 2006 versus \$26.1 million, or 8.5% of net sales, in the first six months of 2005. The increased gross profit and gross margin percentages were primarily the result of the margin expansion in 2006 versus 2005 discussed in the quarterly analysis above.

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 increasing copper costs and an increased amount of inventory on hand during the first six months of 2006, a LIFO adjustment was recorded increasing cost of sales by \$52.3 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 six months of 2006 were \$25.5 million, or 4.1% of net sales, compared to \$16.6 million, or 5.4% of net sales, in the same period of 2005. The percentage decrease was due to the decrease in freight costs as a percentage of net sales, driven by the large increase 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 \$4.6 million, or 0.8% of net sales, in the first six months of 2006 compared to \$3.7 million, or 1.2% of net sales, in the same period of 2005. The general and administrative costs are semi-fixed by nature and therefore do not fluctuate proportionately with sales, resulting in the decreased percentage to sales dollars. The provision for bad debts was \$90,000 in the first six months of 2006 and 2005.

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Net interest expense was \$3,078,000 in the first six months of 2006 compared to \$1,602,000 in the first half of 2005. The increase was due primarily to higher average debt balances and higher interest rates during the first six months of 2006 than during the comparable period of 2005.

As a result of the foregoing factors, the Company's net income increased to \$73.2 million in the first half of 2006 from \$3.5 million in the first half of 2005.

Liquidity and Capital Resources

The Company maintains a substantial inventory of finished products to satisfy customer's 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 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.

Effective August 27, 2004, the Company through its indirectly wholly-owned subsidiary, Encore Wire Limited, a Texas Limited partnership (Encore Wire Limited), refinanced its unsecured loan facility with two banks (the Financing Agreement) and also arranged for a private placement of debt (the Note Purchase Agreement). The Company is the guarantor of the indebtedness. Obligations under the Financing Agreement and the Note Purchase Agreement are the only contractual obligations or commercial borrowing commitments of the Company. The Financing Agreement was amended May 16, 2006 to expand the Company's line of credit from \$85,000,000 to \$150,000,000, as disclosed in the Company's press release dated May 26, 2006. The Financing Agreement, as amended, extends through August 27, 2009, and provides for maximum borrowings of the lesser of \$150 million 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, 2006, as computed under the Financing Agreement, was \$150 million. The Financing Agreement is with two banks, Bank of America, N.A., as Agent, and Wells Fargo Bank, National Association, and replaces the previous financing agreement.

Concurrent with the Financing Agreement, Encore Wire Limited and the Company, through its agent bank, entered into the 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 referred to as the Purchasers), whereby Encore Wire Limited issued and sold \$45 million of 5.27% Senior Notes, Series 2004-A, due August 27, 2011 (the Senior Notes) to the Purchasers, the proceeds of which were used to repay a portion of the Company's outstanding indebtedness under the previous financing agreement. Through its agent bank, the Company then entered into an interest rate swap agreement to convert the fixed rate on the Senior Notes to a variable rate based on LIBOR plus a fixed adder for the seven-year duration of these notes. As of June 30, 2006, the Company recorded a liability and a corresponding unrealized reduction to Notes Payable on the balance sheet of \$2,313,663 to account for the fair value of the interest rate swap.

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The Financing Agreement and the Senior Notes are unsecured and contain customary covenants and events of default. The Company was in compliance with these covenants, as of June 30, 2006. Under the Financing Agreement, the Company is allowed to pay cash dividends. At June 30, 2006, the total balance outstanding under the Financing Agreement and the Senior Notes was \$154.6 million. Amounts outstanding under the Financing Agreement are payable on August 27, 2009, with interest payments due quarterly. Interest payments on the Senior Notes are due semi-annually.

Cash used in operations was \$69.3 million in the first six months of 2006 compared to \$17.6 million of cash used by operations in the first six months of 2005. The decrease in cash provided by operations resulted primarily from the increase in accounts receivable of \$106.4 million in the first six months of 2006 versus an increase of \$15.9 million in 2005 along with an increase in inventory of \$66.2 million in 2006 versus an increase of \$10.6 million in 2005, offset by the \$69.7 million increase in net income in the first six months of 2006 versus the first six months of 2005. The large increases in accounts receivable and inventory were primarily the result of the significant increases in copper prices from year to year as discussed in Results of Operations above. 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 increased due to the reasons highlighted in Results of Operations, above.

Cash used in investing activities increased to \$15.4 million in the first six months of 2006 from \$4.4 million in the first six months of 2005. 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. The \$84.9 million and the \$20.4 million of cash provided by financing activities in the first six months of 2006 and 2005, respectively, were a result of the Company's increase in outstanding bank debt, which was used primarily to fund the Company's increased working capital requirements as discussed above.

During the remainder of 2006, the Company expects its capital expenditures will consist of additional plant and equipment for its residential and commercial wire operations, primarily related to the new armored cable plant, which was discussed in a press release, dated March 21, 2005. The armored cable plant has been constructed and a majority of the machinery planned in the initial phase of this project has been installed. The Company began shipping armored cable in July 2006. The total capital expenditures associated with these projects in 2006 are currently estimated to be in the \$20.0 to \$25.0 million range. The Company will continue to manage its working capital requirements. These requirements may increase as a result of expected continued sales increases and may be impacted by the price of copper. The Company believes that the cash flow from operations and the financing available under the amended Financing Agreement will satisfy working capital and capital expenditure requirements for the next twelve months.

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 information that are based on management's belief as well as assumptions made by and information currently available to management. 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.

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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, 2005, 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 7.A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. 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 believe that these controls and procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods. There have been no changes in the Company's internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting during the period covered by this report.

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PART II. OTHER INFORMATION

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, 2005.

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

Stock Repurchase Program

On November 6, 2001, the Board of Directors of the Company approved a stock repurchase program covering the purchase of up to 450,000 additional shares of its common stock dependent upon market conditions. Common stock purchases under this program were authorized through December 31, 2002 on the open market or through privately negotiated transactions at prices determined by the Chairman of the Board or the President of the Company. As of December 31, 2002, 225,300 shares had been purchased under this authorization. The Board of Directors has extended this program four times, through December 31, 2006, for the remaining 224,700 shares, however there have been no further repurchases of stock since 2002.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Annual Meeting of Stockholders

- (a) The annual meeting of the stockholders of the Company was held in McKinney, Texas at 9:00 a.m., local time, on May 2, 2006.

- (b) Proxies were solicited by the Board of Directors of the Company pursuant to Regulation 14A under the Securities and Exchange Act of 1934; there was no solicitation in opposition to the Board of Directors nominees for director as listed in the proxy statement; and all of such nominees were duly elected as reported below.

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- (c) Out of a total of 23,241,853 shares of the Company's common stock outstanding and entitled to vote, 21,317,768 shares were present in person or by proxy, representing approximately 90% of the outstanding shares.

The first matter voted on by the stockholders, as fully described in the proxy statement for the annual meeting, was the election of directors. The following table presents the number of shares voted for, voted against, and withheld for each nominee for director.

| NOMINEE FOR DIRECTOR | NUMBER OF VOTES FOR | NUMBER OF VOTES WITHHELD |
|-------------------------|---------------------------|--------------------------------|
| Donald E. Courtney | 20,839,856 | 477,877 |
| Daniel L. Jones | 21,060,083 | 275,685 |
| Thomas L. Cunningham | 21,081,304 | 236,464 |
| William R. Thomas | 18,698,236 | 2,619,532 |
| John H. Wilson | 21,297,950 | 473,706 |
| Joseph M. Brito | 20,985,267 | 332,501 |
| Scott D. Weaver | 20,179,507 | 1,138,261 |

The second matter voted on by the stockholders, as fully described in the proxy statement for the annual meeting, was a resolution to amend the 1999 Stock Option Plan of Encore Wire Corporation. The resolution was adopted with the holders of 15,291,705 shares voting in favor of the resolution and the holders of 573,183 shares voting against. Holders of 26,913 shares abstained from voting, and there were 5,425,947 broker non-votes.

The third matter voted on by the stockholders, as fully described in the proxy statement for the annual meeting, was a resolution to approve Ernst & Young LLP as the independent auditors of the Company's financial statements for the year ending December 31, 2006. The resolution was adopted with the holders of 21,221,119 shares voting in favor of the resolution and the holders of 573,183 shares voting against. Holders of 26,933 shares abstained from voting, and there were 5,425,947 broker non-votes.

- (d) Inapplicable.

ITEM 6. EXHIBITS

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

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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 behalf by the undersigned thereunto duly authorized.

ENCORE WIRE CORPORATION

(Registrant)

Dated: August 8, 2006

/s/ DANIEL L. JONES

Daniel L. Jones, President and
Chief Executive Officer

Dated: August 8, 2006

/s/ FRANK J. BILBAN

Frank J. Bilban, Vice President Finance,
Treasurer and Secretary
Chief Financial Officer

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INDEX TO EXHIBITS

| Exhibit Number | Description |
|-------------------|---|
| 3.1 | Certificate of Incorporation of Encore Wire Corporation, as amended through July 20, 2004 (filed on Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, and incorporated herein by reference). |
| 3.2 | Amended and Restated Bylaws of Encore Wire Corporation, as amended through February 20, 2006 (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and incorporated herein by reference). |
| 10.1* | 1999 Stock Option Plan, as amended and restated, effective as of February 20, 2006 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, and incorporated herein by reference). |
| 10.2* | 1989 Stock Option Plan, as amended and restated (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-38729), and incorporated herein by reference), terminated except with respect to outstanding options there under. |
| 10.3 | First Amendment to Credit Agreement of August 27, 2004, dated May 16, 2006, by and among Encore Wire Limited, as Borrower, Bank of America, N.A., as Agent, and Bank of America, N.A. and Wells Fargo Bank, National Association, as Lenders. |
| 31.1 | Certification by Daniel L. Jones, President and Chief Executive Officer of Encore Wire Corporation, dated August 8, 2006 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, Chief Financial Officer, Treasurer and Secretary of Encore Wire Corporation, dated August 8, 2006 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 Encore Wire Corporation, dated August 8, 2006 and submitted as required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification by Frank J. Bilban, Vice President-Finance, Chief Financial Officer, Treasurer and Secretary of Encore Wire Corporation, dated August 8, 2006 as required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management contract or compensatory plan.