

ENCORE WIRE CORP
Form 10-K
February 26, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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)

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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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 per share	The NASDAQ Global Select Market
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☐ (Do not check if a smaller reporting company) Smaller Reporting Company ☐

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

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The aggregate market value of the Common Stock held by non-affiliates of the registrant computed by reference to the price at which the Common Stock was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$408,220,743 (Note: The aggregate market value of Common Stock held by the Company's directors, executive officers, immediate family members of such directors and executive officers, 10% or greater stockholders and other stockholders deemed to be affiliates was excluded from the computation of the foregoing amount. The characterization of such persons as affiliates should not be construed as an admission that any such person is an affiliate of the Registrant for any other purpose).

Number of shares of Common Stock outstanding as of February 25, 2013: 20,663,102

DOCUMENTS INCORPORATED BY REFERENCE

Listed below are documents, parts of which are incorporated herein by reference, and the part of this report into which the document is incorporated:

- (1) Proxy statement for the 2013 annual meeting of stockholders Part III

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PART I

Item 1. Business.

General

Encore Wire Corporation is a Delaware corporation, incorporated in 1989, with its principal executive office and manufacturing plants located at 1329 Millwood Road, McKinney, Texas 75069. The Company's telephone number is (972) 562-9473. As used in this annual report, unless otherwise required by the context, the terms Company, Encore and Encore Wire refer to Encore Wire Corporation and its consolidated entities.

Encore is a low-cost manufacturer of 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 principal customers for Encore's wire are wholesale electrical distributors, who sell building wire and a variety of other products to electrical contractors. The Company sells its products primarily through independent manufacturers' representatives located throughout the United States and, to a lesser extent, through its own direct in-house marketing efforts.

Encore's strategy is to further expand its share of the markets for building wire primarily by emphasizing a high level of customer service and low-cost production and the addition of new products that complement its current product line. The Company maintains product inventory levels sufficient to meet anticipated customer demand and believes that the speed and completeness with which it fills customer orders are key competitive advantages critical to marketing its products. Encore's low-cost production capability features an efficient plant design incorporating highly automated manufacturing equipment, an integrated production process and a highly motivated work force.

Strategy

Encore's strategy for expanding its share of the building wire markets emphasizes customer service and product innovations coupled with low-cost production.

Customer Service. Responsiveness to customers is a primary focus of Encore, with an emphasis on building and maintaining strong customer relationships. Encore seeks to establish customer loyalty by achieving a high order fill rate and rapidly handling customer orders, shipments, inquiries and returns. The Company maintains product inventories sufficient to meet anticipated customer demand and believes that the speed and completeness with which it fills orders are key competitive advantages critical to marketing its products.

Product Innovation. Encore has been a leader in bringing new ideas to a commodity product. Encore pioneered the widespread use of color feeder sizes of commercial wire and colors in the residential non-metallic wires. The colors have improved on the job safety and reduced installation times for contractors. Encore Wire's new patented SmartColor ID system for metal-clad and armor clad cables allows for quick and accurate identification of gauge, number of conductors, wire and jacket type. Additionally, Encore currently has thirteen patent-pending innovations that range from process improvements to packaging solutions.

Low-Cost Production. Encore's low-cost production capability features an efficient plant design and an incentivized work force.

Efficient Plant Design. Encore's highly automated wire manufacturing equipment is integrated in an efficient design that reduces material handling, labor and in-process inventory.

Incentivized Work Force. The Company has a stock option plan that enhances the motivation of its salaried manufacturing supervisors. The Company also has a comprehensive safety program that emphasizes employee participation. The Company provides a 401(k) retirement savings plan to all employees with at least one year of service.

Products

Encore offers an electric building wire product line that consists primarily of NM-B cable, UF-B cable, THHN/THWN-2 and other types of wire products, including metal clad and armored cable. All of these products are manufactured with copper or aluminum as the conductor. The Company also purchases small quantities of other types of wire to re-sell to customers that buy products that the Company manufactures. The principal bases for differentiation among stock-keeping units (SKUs) are product type, conductor type, diameter, insulation, color and

packaging.

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NM-B Cable. Non-metallic sheathed cable is used primarily as interior wiring in homes, apartments and manufactured housing. NM-B cable is composed of either two or three insulated copper wire conductors, with an un-insulated ground wire, all sheathed in a polyvinyl chloride (PVC) jacket.

UF-B Cable. Underground feeder cable is used to conduct power underground to outside lighting and other applications remote from buildings. UF-B cable is composed of two or three PVC insulated copper wire conductors, with an un-insulated ground wire, all jacketed in PVC.

THHN/THWN-2 Cable. THHN/THWN-2 cable is used primarily as feeder, circuit and branch wiring in commercial and industrial buildings. It is composed of a copper or aluminum single conductor, either stranded or solid, and insulated with PVC, which is further coated with nylon. Users typically pull THHN/THWN-2 cable through protective pipe or conduit.

XHHW-2 Cable. XHHW-2 wire is intended for general purpose applications utilized in conduit or other recognized raceways for service, feeders, and branch-circuit wiring. It is composed of a copper or aluminum single conductor, either stranded or solid, and with a single layer of cross-linked polyethylene (XLPE) insulation.

USE-2 Cable. USE-2 or RHH or RHW-2 wire is intended for general purpose applications utilized in conduit or installed in underground applications or in recognized raceways for service, feeders, and branch-circuit wiring. It is composed of a copper or aluminum single conductor, either stranded or solid, and with a single layer of cross-linked polyethylene (XLPE) insulation suitable for wet locations.

Metal Clad and Armored Cable. Metal clad and armored cable is used primarily as feeder, circuit and branch wiring, primarily in commercial and industrial buildings. It is composed of multiple conductors, either stranded or solid, and insulated with PVC, which are further coated with nylon and then fully encased in a flexible aluminum or steel armored protective sheath that eliminates the need to pull the wire through pipe or conduit.

Photovoltaic Cable. Photovoltaic style cables are designed to meet the different needs of the emerging Solar Industry by providing connections between PV panels, collector boxes and inverters; and where also allowed by the National Electric Code (NEC).

Bare Copper. Bare copper conductors are used in overhead electrical transmission and distribution systems for grounding electrical systems, and where high-conductivity and flexibility are required for equipment and circuit grounding.

Manufacturing

The efficiency of Encore's highly automated manufacturing facility is a key element of its low-cost production capability. Encore's residential wire manufacturing lines have been integrated so that the handling of product is substantially reduced throughout the production process.

The manufacturing process for the Company's various products involves multiple steps, including: casting, drawing, stranding, compounding, insulating, jacketing and armoring.

Casting. Rod is produced by melting sheets of copper cathode and copper scrap, casting the molten copper into a bar and rolling the hot copper bar into a 5/16 inch copper rod to be drawn into copper wire.

Drawing. Drawing is the process of reducing 5/16 inch copper rod through converging dies until the specified wire diameter is attained. The wire is then heated with electrical current to soften or anneal the wire to make it easier to handle.

Stranding. Stranding is the process of twisting together from seven to sixty-one individual wire strands to form a single cable. The purpose of stranding is to improve the flexibility of wire while maintaining its electrical current carrying capacity.

PVC Compounding. PVC compounding is the process of mixing the various raw materials that are required to produce the PVC necessary to meet U/L specifications for the insulation and jacket requirements for the wire that is manufactured.

Insulating. Insulating is the process of extruding PVC over the solid or stranded wire.

Jacketing. Jacketing is the process of extruding PVC over two or more insulated conductor wires, with or without an un-insulated ground wire, to form a finished product. The Company's jacketing lines are integrated with packaging lines that cut the wire and coil it onto reels or package it in boxes or shrink-wrap. Jacketing also comprises extruding a nylon covering over some PVC insulated products, such as THHN/THWN-2.

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Metal Cladding and Armoring. Metal cladding and armoring is the process of covering two or more insulated conductor wires, with or without an un-insulated ground wire, with a spiral interlocking cover of aluminum or steel to form a finished product.

Encore manufactures and tests all of its products in accordance with the standards of Underwriters Laboratories, Inc. (U/L), a nationally recognized testing and standards agency. Encore's machine operators and quality control inspectors conduct routine product tests. The Company tests finished products for electrical continuity to ensure compliance with its own quality standards and those of U/L. Encore's manufacturing lines are equipped with laser micrometers to measure wire diameter and insulation thickness while the lines are in operation. During each shift, operators perform and record routine physical measurements of products, all of which are separately verified and approved by quality control inspectors. Although suppliers pretest PVC and nylon compounds, the Company tests products for aging, cracking and brittleness of insulation and jacketing. Additionally, UL representatives routinely visit and test products from each area of manufacturing.

Customers

Encore sells its wire principally to wholesale electrical distributors throughout the United States and, to a lesser extent, to retail home improvement centers. Most distributors supply products to electrical contractors. Encore's customer base is numerous and diversified. Encore has no customer, the loss of which would have a material adverse effect on Encore.

Encore believes that the speed and completeness with which it fills customers' orders is crucial to its ability to expand the market share for its products. The Company also believes that, in order to reduce costs, many customers do not maintain substantial inventories. Because of this trend, the Company seeks to maintain sufficient inventories to satisfy customers' prompt delivery requirements.

Marketing and Distribution

Encore markets its products throughout the United States primarily through independent manufacturers' representatives and, to a lesser extent, through its own direct marketing efforts.

Encore maintains the majority of its finished product inventory at its plant in McKinney, Texas. In order to provide flexibility in handling customer requests for immediate delivery of the Company's products, additional product inventories are maintained at warehouses owned and operated by independent manufacturers' representatives located throughout the United States. As of December 31, 2012, additional product inventories are maintained at the warehouses of independent manufacturers' representatives located in Chattanooga, Tennessee; Norcross, Georgia; Cincinnati, Ohio; Canton, Michigan; Edison, New Jersey; Louisville, Kentucky; Greensboro, North Carolina; Pittsburgh, Pennsylvania; Santa Fe Springs, California; Hayward, California; and Ft. Lauderdale, Florida. Some of these manufacturers' representatives, as well as the Company's other manufacturers' representatives, maintain offices without warehouses in numerous locations throughout the United States.

Finished goods are typically delivered to warehouses and customers by trucks operated by common carriers. The decision regarding the carrier to be used is based primarily on availability and cost.

The Company invoices its customers directly for products purchased and, if an order has been obtained through a manufacturer's representative, pays the representative a commission based on pre-established rates. The Company determines customer credit limits. The Company recorded nominal bad debt charges in 2012, 2011, and 2010. The manufacturers' representatives have no discretion to determine prices charged for the Company's products, and all sales are subject to approval by the Company. Encore sells all of its products with a one-year replacement warranty. Warranty expenses have historically been nominal.

Employees

Encore believes that its hourly employees are highly motivated and that their motivation contributes significantly to the plant's efficient operation. The Company attributes the motivation of these employees largely to the fact that Encore offers competitive hourly compensation that is directly tied to productivity and quality standards. The Company believes that competitive hourly compensation coupled with sound management practices focuses its employees on maintaining high production standards and product quality.

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As of December 31, 2012, Encore had 998 employees, 843 of whom were paid hourly wages and were primarily engaged in the operation and maintenance of the Company's manufacturing and warehouse facility. The rest of the Company's employees were executive, supervisory, administrative, sales and clerical personnel. The Company considers its relations with its employees to be good. The Company has no collective bargaining agreements with any of its employees.

Raw Materials

The principal raw materials used by Encore in manufacturing its products are copper cathode, copper scrap, PVC thermoplastic compounds, XLPE compounds, aluminum, steel, paper and nylon, all of which are readily available from a number of suppliers. Copper is the principal raw material used by the Company in manufacturing its products, constituting nearly 88.3% of the dollar value of all raw materials used by the Company during 2012. Copper requirements are purchased primarily from miners and commodity brokers at prices determined each month primarily based on the average daily COMEX closing prices for copper for that month, plus a negotiated premium. The Company also purchases raw materials necessary to manufacture various PVC thermoplastic compounds. These raw materials include PVC resin, clay and plasticizer.

The Company produces copper rod from purchased copper cathodes and copper scrap in its own rod fabrication facility. The Company reprocesses copper scrap generated by its operations and copper scrap purchased from others. In 2012, the Company's copper rod fabrication facility manufactured the majority of the Company's copper rod requirements. The Company purchases aluminum rod for aluminum wire production.

The Company also compounds its own wire jacket and insulation compounds. The process involves the mixture of PVC raw material components to produce the PVC used to insulate the Company's wire and cable products. The raw materials include PVC resin, clay and plasticizer. During the last year, the Company's plastic compounding facility produced virtually all of the Company's PVC requirements.

Competition

The electrical wire and cable industry is highly competitive. The Company competes with several companies who manufacture and sell wire and cable products beyond the building wire segment in which the Company competes. The Company's primary competitors include Southwire Company, Cerro Wire LLC, United Copper Industries, BICC General and AFC Cable Systems, Inc.

The principal elements of competition in the electrical wire and cable industry are, in the opinion of the Company, order fill rate, quality, pricing, and, in some instances, breadth of product line. The Company believes that it is competitive with respect to all of these factors.

Competition in the electrical wire and cable industry, although intense, has been primarily from U.S. manufacturers, including foreign owned facilities located in the United States. The Company has encountered little significant competition from imports of building wire. The Company believes this is primarily because direct labor costs generally account for a relatively small percentage of the cost of goods sold for these products and fr