GENERAL CABLE CORP /DE/
Form 10-Q
August 09, 2006

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

(Mark One)

þ **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**

o **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: 1-12983

**GENERAL CABLE CORPORATION**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 06-1398235 |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| 4 Tesseneer Drive<br>Highland Heights, KY | 41076-9753 |
| *(Address of principal executive offices)* | *(Zip Code)* |

**Registrant s telephone number, including area code: (859) 572-8000**

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 þ No o

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. (Check one):

Large accelerated filer þ Accelerated filer o

Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the most practicable date:

| Class | Outstanding at August 1, 2006 |
|---|---|
| Common Stock, $0.01 par value | 51,332,717 |

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**INDEX TO QUARTERLY REPORT**
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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Condensed Consolidated Statements of Operations**
**(in millions, except per share data)**
**(unaudited)**

| | Three Fiscal Months Ended | | Six Fiscal Months Ended | |
|---|---|---|---|---|
| | June 30, 2006 | July 1, 2005 | June 30, 2006 | July 1, 2005 |
| Net sales | $ 987.1 | $ 608.6 | $ 1,791.4 | $ 1,162.8 |
| Cost of sales | 857.6 | 537.3 | 1,564.3 | 1,024.1 |
| Gross profit | 129.5 | 71.3 | 227.1 | 138.7 |
| Selling, general and administrative expenses | 59.1 | 43.3 | 114.5 | 86.5 |
| Operating income | 70.4 | 28.0 | 112.6 | 52.2 |
| Other income (expense) | 0.2 | | 1.0 | (0.1) |
| Interest income (expense): | | | | |
| Interest expense | (12.3) | (10.6) | (22.4) | (20.9) |
| Interest income | 0.7 | 1.5 | 1.2 | 1.9 |
| | (11.6) | (9.1) | (21.2) | (19.0) |
| Income before income taxes | 59.0 | 18.9 | 92.4 | 33.1 |
| Income tax provision | (17.5) | (7.1) | (29.5) | (12.3) |
| Net income | 41.5 | 11.8 | 62.9 | 20.8 |
| Less: preferred stock dividends | (0.1) | (1.5) | (0.2) | (3.0) |
| Net income applicable to common shareholders | $ 41.4 | $ 10.3 | $ 62.7 | $ 17.8 |
| Earnings per share | | | | |
| Earnings per common share | $ 0.81 | $ 0.26 | $ 1.24 | $ 0.45 |
| Weighted average common shares | 50.8 | 39.4 | 50.4 | 39.3 |
| Earnings per common share-assuming dilution | $ 0.80 | $ 0.23 | $ 1.21 | $ 0.41 |
| Weighted average common shares-assuming dilution | 52.2 | 50.9 | 51.8 | 50.8 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Condensed Consolidated Balance Sheets**
**(in millions, except share data)**

| | June 30, 2006 (unaudited) | December 31, 2005 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 59.0 | $ 72.2 |
| Receivables, net of allowances of $10.3 million at June 30, 2006 and $8.6 million at December 31, 2005 | 791.7 | 542.9 |
| Inventories | 399.2 | 363.9 |
| Deferred income taxes | 47.6 | 41.9 |
| Prepaid expenses and other | 70.1 | 48.6 |
| Total current assets | 1,367.6 | 1,069.5 |
| Property, plant and equipment, net | 368.7 | 366.4 |
| Deferred income taxes | 54.5 | 52.5 |
| Other non-current assets | 33.3 | 34.8 |
| Total assets | $ 1,824.1 | $ 1,523.2 |
| **Liabilities and Shareholders Equity** | | |
| Current Liabilities: | | |
| Accounts payable | $ 647.8 | $ 472.3 |
| Accrued liabilities | 211.4 | 212.2 |
| Current portion of long-term debt | 20.0 | 6.4 |
| Total current liabilities | 879.2 | 690.9 |
| Long-term debt | 425.3 | 445.2 |
| Deferred income taxes | 13.1 | 13.4 |
| Other liabilities | 106.4 | 80.4 |
| Total liabilities | 1,424.0 | 1,229.9 |
| Shareholders Equity: | | |
| Redeemable convertible preferred stock, at redemption value (liquidation preference of $50.00 per share): | | |
| June 30, 2006 101,949 shares | | |
| December 31, 2005 129,916 shares | 5.1 | 6.5 |
| Common stock, $0.01 par value, issued and outstanding shares: | | |
| June 30, 2006 51,078,781 (net of 4,998,730 treasury shares) | | |
| December 31, 2005 49,520,209 (net of 4,968,755 treasury shares) | 0.6 | 0.5 |
| Additional paid-in capital | 269.4 | 246.3 |

| | | |
|---|---|---|
| Treasury stock | (53.0) | (52.2) |
| Retained earnings | 166.5 | 103.8 |
| Accumulated other comprehensive income (loss) | 11.5 | (6.8) |
| Other shareholders equity | | (4.8) |
| Total shareholders equity | 400.1 | 293.3 |
| Total liabilities and shareholders equity | $ 1,824.1 | $ 1,523.2 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Condensed Consolidated Statements of Cash Flows**
**(in millions, unaudited)**

| | Six Fiscal Months Ended June 30, 2006 | Six Fiscal Months Ended July 1, 2005 |
|---|---|---|
| Cash flows of operating activities: | | |
| Net income | $ 62.9 | $ 20.8 |
| Adjustments to reconcile net income to net cash flows of operating activities: | | |
| Depreciation and amortization | 25.5 | 22.2 |
| Foreign currency exchange (gain) loss | (1.0) | 0.1 |
| Deferred income taxes | 2.6 | 1.0 |
| Loss on disposal of property | 0.8 | 0.7 |
| Changes in operating assets and liabilities, net of effect of acquisitions and divestitures: | | |
| Increase in receivables | (223.9) | (86.8) |
| Increase in inventories | (17.3) | (25.6) |
| (Increase) decrease in other assets | (7.3) | 12.5 |
| Increase in accounts payable, accrued and other liabilities | 162.8 | 55.8 |
| Net cash flows of operating activities | 5.1 | 0.7 |
| Cash flows of investing activities: | | |
| Capital expenditures | (22.6) | (15.7) |
| Proceeds from properties sold | 0.4 | 0.1 |
| Acquisitions, net of cash acquired | (13.7) | (7.4) |
| Other, net | 1.6 | (0.5) |
| Net cash flows of investing activities | (34.3) | (23.5) |
| Cash flows of financing activities: | | |
| Preferred stock dividends paid | (0.2) | (3.0) |
| Excess tax benefits from stock-based compensation | 8.4 | |
| Net change in revolving credit borrowings | (19.1) | 26.7 |
| Proceeds from other debt | 9.7 | 2.7 |
| Proceeds from exercise of stock options | 14.8 | 0.5 |
| Net cash flows of financing activities | 13.6 | 26.9 |
| Effect of exchange rate changes on cash | 2.4 | (4.9) |
| Decrease in cash | (13.2) | (0.8) |
| Cash beginning of period | 72.2 | 36.4 |
| Cash end of period | $ 59.0 | $ 35.6 |

| | | |
|---|---|---|
| **Supplemental Information** | | |
| Cash paid during the period for: | | |
| Income tax payments, net of refunds | $ 15.8 | $ 3.0 |
| Interest paid | $ 19.4 | $ 20.5 |
| Non-cash investing and financing activities: | | |
| Issuance of nonvested shares | $ 5.5 | $ 3.6 |
| Entrance into capital leases | $ 0.1 | $ 0.2 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Condensed Consolidated Statements of Changes in Shareholders Equity**
**(dollars in millions, share amounts in thousands)**
**(unaudited)**

| | Preferred Stock | | Common Stock | | Add'l Paid in | Treasury | Retained | Accumulated Other Comprehensive Income/ | Other Shareholders' | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Stock | Earnings | (Loss) | Equity | Total |
| Balance, December 31, 2004 | 2,070 | $ 103.5 | 39,336 | $ 0.4 | $ 144.1 | $ (51.0) | $ 86.4 | $ 22.4 | $ (4.4) | $ 301.4 |
| Comprehensive loss: | | | | | | | | | | |
| Net income | | | | | | | 20.8 | | | 20.8 |
| Foreign currency translation adjustment | | | | | | | | (22.7) | | (22.7) |
| Unrealized investment gain | | | | | | | | 0.2 | | 0.2 |
| Gain on change in fair value of financial instruments, net of $0.3 tax expense | | | | | | | | 1.1 | | 1.1 |
| Comprehensive loss | | | | | | | | | | (0.6) |
| Preferred stock dividend | | | | | | | (3.0) | | | (3.0) |
| Issuance of nonvested shares | | | 294 | | 3.6 | | | | (3.6) | |
| Exercise of stock options | | | 64 | | 0.5 | | | | | 0.5 |
| Repayment of loans from shareholders | | | (83) | | (1.2) | (1.2) | | | 1.6 | (0.8) |
| Amortization of nonvested shares | | | | | | | | | 0.5 | 0.5 |
| Other | | | 16 | | 0.2 | | 0.5 | | | 0.7 |
| Balance, July 1, 2005 | 2,070 | $ 103.5 | 39,627 | $ 0.4 | $ 147.2 | $ (52.2) | $ 104.7 | $ 1.0 | $ (5.9) | $ 298.7 |
| | 130 | $ 6.5 | 49,520 | $ 0.5 | $ 246.3 | $ (52.2) | $ 103.8 | $ (6.8) | $ (4.8) | $ 293.3 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2005 | | | | | | | | | | |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | | | 62.9 | | | 62.9 |
| Foreign currency translation adjustment | | | | | | | | 12.0 | | 12.0 |
| Unrealized investment gain | | | | | | | | 2.2 | | 2.2 |
| Gain on change in fair value of financial instruments, net of $2.8 tax expense | | | | | | | | 4.1 | | 4.1 |
| Comprehensive income | | | | | | | | | | 81.2 |
| Preferred stock dividend | | | | | | | (0.2) | | | (0.2) |
| Reclass of unearned stock compensation | | | | | (4.8) | | | | 4.8 | |
| Issuance of nonvested shares | | | 213 | | | | | | | |
| Stock option expense | | | | | 0.7 | | | | | 0.7 |
| Exercise of stock options | | | 1,214 | 0.1 | 14.8 | | | | | 14.9 |
| Treasury shares related to nonvested stock vesting | | | (30) | | | (0.8) | | | | (0.8) |
| Amortization of nonvested shares | | | | | 2.5 | | | | | 2.5 |
| Excess tax benefits from stock-based compensation | | | | | 8.4 | | | | | 8.4 |
| Conversion of preferred stock | (28) | (1.4) | 140 | | 1.4 | | | | | |
| Other | | | 22 | | 0.1 | | | | | 0.1 |
| Balance, June 30, 2006 | 102 | $ 5.1 | 51,079 | $ 0.6 | $ 269.4 | $ (53.0) | $ 166.5 | $ 11.5 | $ | $ 400.1 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**

**1. General**

General Cable Corporation and Subsidiaries (General Cable) is a leading global developer and manufacturer in the wire and cable industry. The Company sells copper, aluminum and fiber optic wire and cable products worldwide. The Company s operations are divided into three main segments: energy, industrial & specialty and communications. As of June 30, 2006, General Cable operated 28 manufacturing facilities in eleven countries with regional distribution centers around the world in addition to the corporate headquarters in Highland Heights, Kentucky.

**2. Summary of Accounting Policies**

***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of General Cable Corporation and its wholly-owned subsidiaries. Investments in 50% or less owned joint ventures in which the Company has the ability to exercise significant influence are accounted for under the equity method of accounting. The Company adopted FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, which resulted in the consolidation of its fiber optic joint venture in the first quarter of 2004. In the fourth quarter of 2004, the Company unwound the joint venture and as of December 31, 2004, owned 100% of the business and in 2005 merged the entity into its principal U.S. operating subsidiary. All intercompany transactions and balances among the consolidated companies have been eliminated.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements of General Cable Corporation and Subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the three fiscal months and six fiscal months ended June 30, 2006, are not necessarily indicative of results that may be expected for the full year. The December 31, 2005, consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures herein required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited financial statements and notes thereto in General Cable s 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2006. The Company s fiscal year end is December 31. The Company s fiscal quarters consist of a 13-week period ending on the Friday nearest to the end of the calendar months of March, June and September.

***Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on historical experience and information that is available to management about current events and actions the Company may take in the future. Significant items subject to estimates and assumptions include valuation allowances for sales incentives, accounts receivable, inventory and deferred income taxes; legal, environmental, asbestos, tax contingency and customer reel deposit liabilities; assets and obligations related to pension and other post-retirement benefits; business combination accounting and related purchase accounting valuations; and self insured workers compensation and health insurance reserves. There can be no assurance that actual results will not differ from these estimates.

***Revenue Recognition***

The majority of the Company s revenue is recognized when goods are shipped to the customer, title and risk of loss are transferred, pricing is fixed and determinable and collectibility is reasonably assured. Most revenue transactions represent sales of inventory. A provision for payment discounts, product returns and customer rebates is estimated based upon historical experience and other relevant factors and is recorded within the same period that the revenue is recognized. The Company also has revenue arrangements with multiple deliverables. Based on the guidance in EITF 00-21, RevenueArrangements with Multiple Deliverables, the multiple deliverables in these revenue arrangements are divided into separate units of accounting because (i) the delivered item(s) have value to the customer on a standalone basis; (ii) there is objective and reliable evidence of the fair value of the undelivered items(s); and (iii) to the extent that a right of return exists relative to

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. Revenue arrangements of this type are generally contracts where the Company is hired to both produce and install a certain product. In these arrangements, the majority of the customer acceptance provisions do not require complete product delivery and installation for the amount related to the production of the item(s) to be recognized as revenue, but the requirement of successful installation does exist for the amount related to the installation to be recognized as revenue. Therefore, revenue is recognized for the product upon delivery to the customer (the completed-contract method ) but revenue recognition on installation is deferred until installation is complete.

***Stock-Based Compensation***

General Cable has various plans which provide for granting options and common stock to certain employees and independent directors of the Company and its subsidiaries. Prior to the first quarter of 2006, the Company accounted for compensation expense related to such transactions using the intrinsic value based method under the provisions of Accounting Principles Board ( APB ) Opinion No. 25 and its related interpretations and therefore recognized no compensation cost for stock options. On January 1, 2006, the Company adopted SFAS 123 (Revised 2004), Share-Based Payment ( SFAS 123(R) ) under the modified prospective transition method, and therefore, prior periods have not been retrospectively adjusted to include prior period compensation expense. The Company has applied SFAS 123(R) to new awards and to awards modified, repurchased or cancelled after January 1, 2006. Additionally, compensation cost for the portion of the awards for which the requisite service had not been rendered, that were outstanding as of January 1, 2006, is being recognized as the requisite service is rendered on or after January 1, 2006 (generally over the remaining vesting period). The compensation cost for that portion of awards has been based on the grant-date fair value of those awards as calculated previously for pro forma disclosures. General Cable s equity compensation plans are described more fully in Note 11.

The following table illustrates the pro forma effect on net income and earnings per share for the three and six fiscal month periods ended July 1, 2005 if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation (in millions, except per share data).

| | Three Fiscal Months Ended July 1, 2005 | Six Fiscal Months Ended July 1, 2005 |
|---|---|---|
| Net income as reported | $ 11.8 | $ 20.8 |
| Less: preferred stock dividends | (1.5) | (3.0) |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (0.2) | (0.4) |
| Pro forma net income for basic EPS computation | $ 10.1 | $ 17.4 |
| | | |
| Net income as reported | $ 11.8 | $ 20.8 |
| Less: preferred stock dividends, if applicable | n/a | n/a |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (0.2) | (0.4) |
| Pro forma net income for diluted EPS computation | $ 11.6 | $ 20.4 |

| | | | | |
|---|---|---|---|---|
| Earnings per share: | | | | |
| Basic as reported | $ | 0.26 | $ | 0.45 |
| Basic pro forma | $ | 0.26 | $ | 0.44 |
| | | | | |
| Diluted as reported | $ | 0.23 | $ | 0.41 |
| Diluted pro forma | $ | 0.23 | $ | 0.40 |

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

In determining the pro forma amounts above for the first three and six fiscal months of 2005 and the compensation cost related to options for the first three and six fiscal months of 2006, the fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | June 30, 2006 | July 1, 2005 |
|---|---|---|
| Risk-free interest rate (a) | 4.7% | 3.7% |
| Expected dividend yield (b) | N/A | N/A |
| Expected option life (c) | 4.6 years | 5.5 years |
| Expected stock price volatility (d) | 62.6% | 45.3% |
| Weighted average fair value of options granted | $ 12.75 | $ 5.56 |

(a) *Risk-free interest rate* This is the U.S. Treasury rate at the end of the quarter in which the option was granted having a term approximately equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

(b) *Expected dividend yield* The Company has not made any dividend payments on common stock since 2002 and it does not have plans to pay dividends on common stock in the foreseeable future. Any dividends paid in the future will decrease compensation expense.

(c) *Expected option life* This is the period of time over which the options granted are expected to remain outstanding and is based on historical experience. Options granted have a maximum term of ten years. An increase in expected life will increase compensation expense.

(d) *Expected stock price volatility* This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. The Company uses actual historical changes in the market value of the Company s stock to calculate the volatility assumption as it is management s belief that this is the best indicator of future volatility. An increase in the expected volatility will increase compensation expense.

***Earnings Per Share***

Earnings per common share is computed based on the weighted average number of common shares outstanding. Earnings per common share-assuming dilution is computed based on the weighted average number of common shares outstanding and the dilutive effect of stock options and restricted stock units outstanding and the assumed conversion of the Company s preferred stock, if applicable. See further discussion in Note 12.

***Foreign Currency Translation***

For operations outside the United States that prepare financial statements in currencies other than the U.S. dollar, results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at spot exchange rates at the end of the period. Foreign currency translation adjustments are included as a separate component of accumulated other comprehensive income (loss) in shareholders equity. The effects of changes in exchange rates between the designated functional currency and the currency in which a transaction is denominated are recorded as foreign currency transaction gains (losses). See further discussion in Note 4.

***Business Combination Accounting***

Acquisitions entered into by the Company are accounted for using the purchase method of accounting. The purchase method requires management to make significant estimates. Management must determine the cost of the acquired entity based on the fair value of the consideration paid or the fair value of the net assets acquired, whichever is more clearly evident. This cost is then allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. In addition, management, with the assistance of valuation professionals, must identify and estimate the fair values of intangible assets that should be recognized as assets apart from goodwill. Management utilizes third-party appraisals to assist in estimating the fair value of tangible property, plant and equipment and intangible assets acquired.

***Inventories***

General Cable values all its North American inventories and all of its non-North American metal inventories using the last-in first-out (LIFO) method and all remaining inventories using the first-in first-out (FIFO) method. Inventories are stated at the lower of cost or market value. The Company determines whether a lower of cost or market provision is required on a quarterly basis by computing whether inventory on hand, on a LIFO basis, can be sold at a profit based upon current selling prices less variable selling costs. No provision was required in the first six fiscal months of 2006 or 2005. In the event that a provision is required in some future period, the Company will determine the amount of the provision by writing down the value of the inventory to the level where its sales, using current selling prices less variable selling costs, will result in a profit.

The Company has consignment inventory at certain of its customer locations for purchase and use by the customer or other parties. General Cable retains title to the inventory and records no sale until it is ultimately sold either to the customer storing the inventory or to another party. In general, the value and quantity of the consignment inventory is verified by General Cable through either cycle counting or annual physical inventory counting procedures. At June 30, 2006, the Company had approximately $27.6 million of consignment inventory at locations not operated by the Company with approximately 80% of the consignment inventory being located throughout the United States and Canada.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost. Costs assigned to property, plant and equipment relating to acquisitions are based on estimated fair values at that date. Depreciation is provided using the straight-line method over the estimated useful lives of the assets: new buildings, from 15 to 50 years; and machinery, equipment and office furnishings, from 2 to 15 years. Leasehold improvements are depreciated over the life of the lease unless acquired in a business combination, in which case the leasehold improvements are depreciated over the shorter of the useful life of the assets or a term that includes the reasonably assured life of the lease. Depreciation expense for the three fiscal months and six fiscal months ended June 30, 2006 was $10.8 million and $22.2 million, respectively, as compared to $12.5 million and $20.8 million, respectively, of depreciation expense for the three and six fiscal months ended July 1, 2005.

On December 27, 2005, General Cable entered into a capital lease for certain pieces of equipment being used at the Company s Indianapolis polymer plant. The capital lease agreement provides that the lease payments for the machinery and equipment will be approximately $0.6 million semi-annually, or approximately $1.2 million on an annual basis. The lease expires in December of 2010, and General Cable has the option to purchase the machinery and equipment for fair value at the end of the lease term. The present value of the minimum lease payments on the capital lease at inception was approximately $5.0 million and was reflected in fixed assets and in short-term ($0.9 million) and long-term ($4.1 million) lease obligations in the Company s December 31, 2005 balance sheet.

Capital leases included within property, plant and equipment on the balance sheet were $5.8 million at June 30, 2006 and $5.7 million at December 31, 2005. Accumulated depreciation on capital leases was $1.1 million at June 30, 2006 and $0.5 million at December 31, 2005.

The Company periodically evaluates the recoverability of the carrying amount of long-lived assets (including property, plant and equipment and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company evaluates events or changes in circumstances based mostly on actual historical operating results, but business plans, forecasts, general and industry trends and anticipated cash flows are also considered. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. The Company also continually evaluates the estimated useful lives of all long-lived assets and, when warranted, revises such estimates based on current events. There were no impairment charges, including accelerated depreciation related to plant rationalizations, in the three and six fiscal months ended June 30, 2006, but there were impairment charges of $3.0 million for the three and six fiscal months ended July 1, 2005. These charges were included in depreciation and amortization in the Condensed Consolidated Statements of Cash Flows.

***Goodwill and Other Intangible Assets***

Goodwill and intangible assets with indefinite useful lives are not amortized, but are reviewed at least annually for impairment. If the carrying amount of goodwill or an intangible asset with an indefinite life exceeds its fair value, an impairment loss is recognized in the amount equal to the excess. There was no goodwill on the Company s balance

sheet as of June 30, 2006 or December 31, 2005, and no impairment of intangible assets with indefinite lives was identified during the three and six fiscal months ended June 30, 2006 and July 1, 2005. The Company has various trademarks and intangible pension assets, included in other non-current assets, totaling $5.1 million at June 30, 2006 and $4.0 million at December 31, 2005, that are not amortized.
Separate intangible assets that are not deemed to have an indefinite life are amortized over their useful lives. Amortizable intangible assets, included in other non-current assets, at June 30, 2006 and December 31, 2005 consist of the following (in millions):

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

| | June 30, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|
| | Life | Cost | Accumulated Amortization | Life | Cost | Accumulated Amortization |
| Patents | 12 | $ 1.1 | $ * | | $ | $ |
| Customer Lists | 10 | 0.4 | 0.1 | 10 | 0.4 | * |
| Total | | $ 1.5 | $ 0.1 | | $ 0.4 | $ * |

*Not significant during this period

The total intangible amortization expense for the three fiscal months ended June 30, 2006 was not significant and for the six fiscal months ended June 30, 2006 was $0.1 million and was not significant for the three and six fiscal months ended July 1, 2005.

The estimated amortization expense, assuming no residual value and using the straight-line method, for the next five years beginning January 1, 2006 through December 31, 2010 is as follows (in millions):

| | |
|---|---|
| 2006 | $ 0.2 |
| 2007 | $ 0.2 |
| 2008 | $ 0.1 |
| 2009 | $ 0.1 |
| 2010 | $ 0.1 |

***Fair Value of Financial Instruments***

Financial instruments are defined as cash or contracts relating to the receipt, delivery or exchange of financial instruments. Except as otherwise noted, fair value approximates the carrying value of such instruments.

***Forward Pricing Agreements for Purchases of Copper and Aluminum***

In the normal course of business, General Cable enters into forward pricing agreements for purchases of copper and aluminum to match certain sales transactions. The Company accounts for these forward pricing arrangements under the normal purchases and normal sales scope exemption of SFAS No. 133 because these arrangements are for purchases of copper and aluminum that will be delivered in quantities expected to be used by the Company over a reasonable period of time in the normal course of business. For these arrangements, it is probable at the inception and throughout the life of the arrangements that the arrangements will not settle net and will result in physical delivery of the inventory. At June 30, 2006 and December 31, 2005, General Cable had $198.3 million and $106.2 million, respectively, of future copper and aluminum purchases that were under forward pricing agreements. The fair market value of the forward pricing agreements was $211.5 million and $117.6 million at June 30, 2006 and December 31, 2005, respectively. The increase in the fair market value of the forward pricing agreements is primarily due to the rapid increases in the price of copper and aluminum experienced in 2006. General Cable expects to recover the cost of copper and aluminum under these agreements as a result of firm sales price commitments with customers.

***Pension Plans***

The Company and certain of its subsidiaries have defined benefit pension plans covering certain of its domestic regular full-time employees and, to a lesser extent, international employees. Pension benefits are based on formulas that reflect the employees years of service and compensation during the employment period and participation in the plans. The pension expense recognized by the Company is determined using various assumptions, including the expected long-term rate of return on plan assets, the discount rate used to determine the present value of future pension benefits and the rate of compensation increases. See Note 9 in the Notes to Condensed Consolidated Financial Statements for further information.

***Self-insurance***

The Company is self-insured for certain employee medical benefits, workers compensation benefits, environmental and asbestos-related issues. The Company purchases stop-loss coverage in order to limit its exposure to any significant level of employee medical and workers compensation claims. Certain insurers are also partly responsible for coverage on many of the asbestos-related issues (see Note 14 for information relating to the release of one of these insurers during 2006). Self-insured losses are accrued based upon estimates of the aggregate liability for uninsured claims incurred using the Company s own historical claims experience.

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

***Concentration of Labor Subject to Collective Bargaining Agreements***

At June 30, 2006, approximately 7,500 persons were employed by General Cable, and collective bargaining agreements covered approximately 4,550 employees, or 61% of total employees, at various locations around the world. During the five calendar years ended December 31, 2005, the Company experienced two strikes in North America and one strike in Asia Pacific all of which were settled on satisfactory terms. There were no other major strikes at any of the Company s facilities during the five years ended December 31, 2005, and there have been no strikes during the three and six fiscal months ended June 30, 2006. The only strike that occurred in 2005 was at the Company s Lincoln, Rhode Island manufacturing facility, and it lasted approximately two weeks. In the United States and Canada, union contracts expired at one facility in 2006 (consisting of two separate contracts) representing approximately 2% of total employees as of June 30, 2006 and will expire at two facilities in 2007 representing approximately 3% of total employees as of June 30, 2006. The first of the two contracts expiring at the Company s U.S. facility in 2006 was successfully negotiated and ratified on March 5, 2006. The second contract expiring in 2006 was successfully negotiated and ratified on May 21, 2006. In Europe, Mexico and Asia Pacific, labor agreements are generally negotiated on an annual or bi-annual basis. The Company believes that its relationships with its employees are good.

***Concentration of Credit Risk***

General Cable sells a broad range of products throughout primarily the United States, Canada, Europe and the Asia Pacific region. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers, including members of buying groups, composing General Cable s customer base. General Cable customers in North America generally receive a 30 to 60 day payment period on purchases from the Company. Certain automotive aftermarket customers of the Company receive payment terms ranging from 60 days to 180 days, which is common in this particular market. Ongoing credit evaluations of customers financial condition are performed, and generally, no collateral is required. General Cable maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management s estimates. Certain subsidiaries also maintain credit insurance for certain customer balances. Bad debt expense associated with uncollectible accounts for the three and six fiscal months ended June 30, 2006 was $(0.4) million and $(0.3) million, respectively, due to better than expected customer payment performance. Bad debt expense associated with uncollectible accounts was $0.5 million and $1.9 million for the three and six fiscal months ended July 1, 2005.

***Income Taxes***

The Company and certain of its wholly-owned subsidiaries file a consolidated U.S. federal income tax return. Other subsidiaries of the Company file tax returns in their local jurisdictions.

The Company provides for income taxes on all transactions that have been recognized in the Consolidated Financial Statements in accordance with SFAS No. 109. Accordingly, the impact of changes in income tax laws on deferred tax assets and deferred tax liabilities are recognized in net earnings in the period during which such changes are enacted. The Company records a valuation allowance to reduce deferred tax assets to the amount that it believes is more likely than not to be realized. The valuation of the deferred tax asset is dependent on, among other things, the ability of the Company to generate a sufficient level of future taxable income. In estimating future taxable income, the Company has considered both positive and negative evidence, such as historical and forecasted results of operations, including the losses realized earlier in the decade, and has considered the implementation of prudent and feasible tax planning strategies. At June 30, 2006, the Company had recorded a net deferred tax asset of $86.5 million ($45.1 million current and $41.4 million long term). Approximately $7.5 million of this deferred tax asset must be utilized prior to its expiration in the period 2007-2009. The remainder of the asset may be used for at least 15 years. This finite life has also been considered by the Company in the valuation of the asset. The Company has and will continue to review on a quarterly basis its assumptions and tax planning strategies, and, if the amount of the estimated realizable net deferred tax asset is less than the amount currently on the balance sheet, the Company would reduce its deferred tax asset, recognizing a non-cash charge against reported earnings. As a part of the quarterly review previously mentioned, during the second quarter of 2006, the Company recognized a benefit of approximately $3.7 million due to the release of a portion of the state deferred tax valuation allowance as it became more likely than not that the related deferred tax asset would be utilized in future years as a result of improved performance in the Company s U.S. operations.

The Company believes it has a reasonable basis in the tax law for all of the positions it takes in the various tax returns it files. However, in recognition of the fact that (i) various taxing authorities may take opposing views on some issues, (ii) the cost and risk of litigation in sustaining the positions that the Company has taken on various returns might be significant, and (iii) the taxing authorities may prevail in their attempts to overturn such positions, the Company maintains tax reserves, which are established for amounts that are judged to be probable liabilities based on the definition presented in SFAS No. 5. These tax

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

reserves cover a wide range of issues and involve numerous different taxing jurisdictions. The potential issues covered by tax reserves as well as the amount and adequacy of the tax reserves are topics of frequent review internally and with outside tax advisors. Where necessary, periodic adjustments are made to such reserves to reflect the lapsing of statutes of limitations, closing of ongoing examinations, or other relevant factual developments.

***Derivative Financial Instruments***

Derivative financial instruments are utilized to manage interest rate, commodity and foreign currency risk as it relates to both transactions and the Company s net investment in its European operations. General Cable does not hold or issue derivative financial instruments for trading purposes. Statement of Financial Accounting Standards (SFAS) No. 133, Accounting For Derivative Instruments and Hedging Activities, as amended, requires that all derivatives be recorded on the balance sheet at fair value. The accounting for changes in the fair value of the derivative depends on the intended use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133, as applied to General Cable s risk management strategies, may increase or decrease reported net income, and shareholders equity, or both, prospectively depending on changes in interest rates and other variables affecting the fair value of derivative instruments and hedged items, but will have no effect on cash flows or economic risk. See further discussion in Note 8.

Foreign currency and commodity contracts are used to hedge future sales and purchase commitments. Interest rate swaps are used to achieve a targeted mix of floating rate and fixed rate debt. Unrealized gains and losses on these derivative financial instruments are recorded in other comprehensive income (loss) until the underlying transaction occurs and is recorded in the income statement at which point such amounts included in other comprehensive income (loss) are recognized in earnings which generally will occur over periods less than one year.

In October 2005, the Company entered into a U.S. dollar to Euro cross currency and interest rate swap agreement that qualifies as a net investment hedge of the Company s net investment in its European operations in order to hedge the effects of the changes in spot exchange rates on the value of the net investment. The swap is marked-to-market quarterly using the spot method to measure the amount of hedge ineffectiveness. Changes in the fair value of the swap as they relate to spot exchange rates are recorded as other comprehensive income (loss) whereas changes in the fair value of the swap as they relate to the interest rate differential and the change in interest rate differential since the last marked-to-market date are recognized currently in earnings for the period.

***Shipping and Handling Costs***

All shipping and handling amounts billed to a customer in a sales transaction are classified as revenue. Shipping and handling costs associated with storage and handling of finished goods and storage and handling of shipments to customers are included in cost of sales and totaled $26.9 million and $17.5 million, respectively, for the three fiscal months ended June 30, 2006 and July 1, 2005 and totaled $54.4 million and $37.8 million, respectively, for the six fiscal months ended June 30, 2006 and July 1, 2005.

***Advertising Expense***

Advertising expense consists of expenses relating to promoting the Company s products, including trade shows, catalogs, and e-commerce promotions, and is charged to expense when incurred. Advertising expense was $2.2 million and $1.7 million for the three fiscal months ended June 30, 2006 and July 1, 2005, respectively, and was $3.7 million and $3.2 million, respectively, for the six fiscal months ended June 30, 2006 and July 1, 2005.

***New Standards***

In February 2006, SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140, was issued. This statement provides companies with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133 by allowing companies to make an irrevocable election to measure a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. The election may be made on an instrument-by-instrument basis and can be made only when a hybrid financial instrument is initially recognized or undergoes a remeasurement event. SFAS No. 155 also requires that interests in securitized financial assets be evaluated to identify whether they are freestanding derivatives or hybrid financial instruments containing an embedded derivative that requires bifurcation. SFAS No. 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of adopting SFAS No. 155 on its consolidated financial position, results of operations and cash flows.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

In March 2006, SFAS No. 156, Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140, was issued. SFAS No. 156 requires recognition of a servicing asset or liability at fair value each time an obligation is undertaken to service a financial asset by entering into a servicing contract. SFAS No. 156 also provides guidance on subsequent measurement methods for each class of servicing assets and liabilities and specifies financial statement presentation and disclosure requirements. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006. The Company is currently evaluating the impact of adopting SFAS No. 156 on its consolidated financial position, results of operations and cash flows.

In July 2006, FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, was issued. This Interpretation clarifies accounting for uncertain tax positions in accordance with SFAS No. 109. Specifically, the Interpretation requires recognition of a Company s best estimate of the impact of a tax position only if that position is more-likely-than-not to be sustained by an audit based only on the technical merits of the position. Tax positions that meet the threshold are recognized at the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. Tax positions currently held that fail the more-likely-than-not recognition threshold would result in adjustments in recorded deferred tax assets or liabilities and changes in income tax payables or receivables. In addition, Interpretation 48 specifies certain annual disclosures that are required to be made once the Interpretation has taken effect. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting this proposed Interpretation on its consolidated financial position, results of operations and cash flows.

In September 2005, the FASB issued an exposure draft, Earnings per Share an amendment of FASB Statement No. 128. This proposed statement seeks to clarify guidance for mandatorily convertible instruments, the treasury stock method, contracts that may be settled in cash or shares, and contingently issuable shares. The proposed statement would amend the computational guidance for calculating the number of incremental shares included in diluted shares when applying the treasury stock method, would further amend the treasury stock method to treat as assumed proceeds the carrying amount of an extinguished liability upon issuance of shares, would eliminate the provision of Statement 128 that allows an entity not to assume share settlement in contracts that may be settled in either cash or shares, would define a mandatorily convertible instrument and its effects on basic EPS, and would eliminate the weighted-average computation for calculating contingently issuable shares. The effective date of this statement, originally for interim and annual periods ending after June 15, 2006, has been postponed. The Company is currently evaluating the impact of adopting this proposed statement on its consolidated financial position, results of operations and cash flows.

In March 2006, the FASB issued an exposure draft, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106, and 132(R). This proposed statement requires an employer that sponsors one or more defined benefit pension or other postretirement plans to recognize an asset or liability for the over-funded or under-funded status of its defined benefit postretirement plans. Employers would be required to record all unrecognized prior service costs and unrecognized actuarial gains and losses in accumulated other comprehensive income (loss), and these amounts would then be reclassified into earnings as components of net periodic benefit cost/income pursuant to the current recognition and amortization provisions of SFAS No. 87 and SFAS No. 106. The proposed statement also requires an employer to measure plan assets and benefit obligations as of the date of the employer s statement of financial position. This statement, if approved, would become effective for fiscal years ending after December 15, 2006 except for the requirement to measure plan assets and benefit obligations as of the statement of financial position date, which would become effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of adopting this proposed statement on its consolidated financial position, results of operations and cash flows.

**3. Acquisitions and Divestitures**

In the first quarter of 2005, the Company acquired certain assets of Draka Comteq s business in North America for a purchase price of $7.5 million in cash, subject to post-closing adjustments. The Company incurred $0.1 million of costs and expenses associated with the acquisition. The assets acquired are located in Franklin, Massachusetts and manufacture specialty electronics and datacom products. The assets acquired included machinery and equipment, inventory, prepaid assets and intangible assets, net of the assumption of trade payables. The purchase price has been allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition. During the second quarter of 2005, the final purchase price was agreed with Draka resulting in a cash payment of approximately $0.2 million to the Company. The pro forma effects of the acquisition were not material.

On December 22, 2005, the Company completed its purchase of the shares of the wire and cable manufacturing business of SAFRAN SA, a diverse, global high technology company. The acquired business is known under the name Silec Cable,

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

S.A.S. ( Silec ). Silec® is based in Montereau, France and employs approximately 1,000 associates with nearly one million square feet of manufacturing space in that location. In 2005, prior to the acquisition date, Silec® reported global sales of approximately $282.7 million (based on 2005 average exchange rates) of which about 52% were linked to energy infrastructure. The original consideration paid for the acquisition was approximately $82.8 million (at prevailing exchange rates during that period) including fees and expenses and net of cash acquired at closing. In accordance with the terms of the definitive share purchase agreement, the Company withheld approximately 15% of the purchase price at closing until the parties agreed on the final closing balance sheet. During the second quarter of 2006, the Company agreed on the closing balance sheet and resolved other claims with SAFRAN SA, and therefore, the Company paid additional consideration of approximately $13.7 million (at prevailing exchange rates during the period) including fees and expenses in final settlement of the acquisition price. The Company acquired Silec® primarily as the latest step in the positioning of the Company as a global leader in cabling systems for the energy exploration, production, transmission and distribution markets.

A preliminary purchase price allocation based on the estimated fair values, or other measurements as applicable, of the assets acquired and the liabilities assumed at the date of acquisition is as follows (in millions at the prevailing exchange rate for that date):

| | | As of December 22, 2005 |
|---|---|---|
| Cash | $ | 1.4 |
| Accounts receivable | | 113.5 |
| Inventories | | 49.1 |
| Prepaid expenses and other | | 8.4 |
| Property, plant and equipment | | 17.6 |
| Other noncurrent assets | | 2.0 |
| Total assets | $ | 192.0 |
| Accounts payable | $ | 43.1 |
| Accrued liabilities | | 40.0 |
| Other liabilities | | 12.0 |
| Total liabilities | $ | 95.1 |

The values of property, plant and equipment and intangible assets reflected above have been adjusted for the pro rata allocation (based on their relative fair values) of the excess of the fair value of acquired net assets over the cost of the acquisition. The Company has not yet finalized the deferred tax accounting in establishing the acquisition opening balance sheet. This valuation is expected to be completed in the third quarter of 2006, which could result in changes to the values assigned above to property, plant and equipment and intangible assets.

Intangible assets reflected above were determined by management to meet the criteria for recognition apart from goodwill and include the following (in millions at the prevailing exchange rate for that date):

| | | Estimated Fair Value | Amortization Period (in years) |
|---|---|---|---|
| Patents | $ | 1.0 | 12.0 |

| | | | |
|---|---|---|---|
| Total amortizable intangible assets | $ | 1.0 | 12.0 |
| Trademarks | $ | 1.0 | |
| Total intangible assets | $ | 2.0 | |

Trademarks have been determined by management to have indefinite lives and are not amortized, based on management s expectation that the trademarked products will generate cash flows for the Company for an indefinite period. Management expects to continue to use the acquired trademarks on existing products and to introduce new products that will also display the trademarks, thus extending their lives indefinitely.

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

The patents were determined by management to have finite lives. The useful life for the patents was based on the remaining lives of the related patents.

No in-process research and development costs have been identified to be written off.

The following table presents, in millions, actual unaudited consolidated results of operations for the Company for the three and six fiscal months ended June 30, 2006, including the operations of Silec® and presents the unaudited pro forma consolidated results of operations for the Company for the three and six fiscal months ended July 1, 2005 as though the acquisition of Silec® had been completed as of the beginning of each period. This pro forma information is intended to provide information regarding how the Company might have looked if the acquisition had occurred as of January 1, 2005. The pro forma adjustments represent management s best estimates based on information available at the time the pro forma information was prepared and may differ from the adjustments that may actually have been required. Accordingly, the pro forma financial information should not be relied upon as being indicative of the historical results that would have been realized had the acquisition occurred as of the dates indicated or that may be achieved in the future.

| | Unaudited Three Fiscal Months Ended | | Unaudited Six Fiscal Months Ended | |
|---|---|---|---|---|
| | June 30, 2006 (As reported) | July 1, 2005 (Pro forma) | June 30, 2006 (As reported) | July 1, 2005 (Pro forma) |
| Revenue | $ 987.1 | $ 680.3 | $ 1,791.4 | $ 1,304.0 |
| Net income applicable to common shareholders | $ 41.4 | $ 11.2 | $ 62.7 | $ 19.2 |
| Earnings per common share assuming dilution | $ 0.80 | $ 0.25 | $ 1.21 | $ 0.44 |

The pro forma results reflect immaterial pro forma adjustments for interest expense, depreciation and related income taxes in order to present the amounts on a purchase accounting adjusted basis. These pro forma results also include an estimated $1.2 million and an estimated $2.4 million, respectively, of corporate costs allocated by SAFRAN SA to Silec® during the three and six fiscal months ended July 1, 2005. Certain overhead costs previously incurred on behalf of and allocated to Silec® by SAFRAN SA are incurred directly by Silec® in 2006.

Net income during the three and six fiscal months ended June 30, 2006 and July 1, 2005 includes certain material one-time benefits (charges) unrelated to the acquisition, as listed below (in millions):

| | Unaudited Three Fiscal Months Ended | | Unaudited Six Fiscal Months Ended | |
|---|---|---|---|---|
| | June 30, 2006 | July 1, 2005 | June 30, 2006 | July 1, 2005 |
| Release of deferred tax valuation allowance | $ 3.7 | $ | $ 3.7 | $ |
| Plant rationalization charges | $ | $ (3.5) | $ | $ (3.5) |

On December 30, 2005, the Company completed the acquisition of the Mexican ignition wire set business of Beru AG, a worldwide leading manufacturer of diesel cold start systems. The acquired business is known under the name Beru S.A. de C.V. (Beru S.A.). Beru S.A. is based in Cuernavaca, Mexico and employs approximately 100 associates with one hundred thousand square feet of manufacturing space. Beru S.A. operates an automotive aftermarket assembly and distribution operation with annual revenues of approximately $7 million. Pro forma results of the Beru S.A. acquisition are not material.

The results of operations of the acquired businesses discussed above have been included in the consolidated financial statements since the respective dates of acquisition.

**4. Other Income (Expense)**

Other income (expense) includes foreign currency transaction gains or losses which result from changes in exchange rates between the designated functional currency and the currency in which a transaction is denominated. The Company recorded a $0.2 million gain during the three fiscal months ended June 30, 2006 and a $1.0 million gain during the six fiscal months ended June 30, 2006 resulting from foreign currency transaction gains. The Company recorded an insignificant amount

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

during the three fiscal months ended July 1, 2005 and a $0.1 million loss during the six fiscal months ended July 1, 2005 resulting from foreign currency transaction losses.

**5. Inventories**

Inventories consisted of the following (in millions):

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Raw materials | $ 43.3 | $ 40.6 |
| Work in process | 78.5 | 56.2 |
| Finished goods | 277.4 | 267.1 |
| Total | $ 399.2 | $ 363.9 |

At June 30, 2006 and December 31, 2005, $299.2 million and $285.7 million, respectively, of inventories were valued using the LIFO method. Approximate replacement costs of inventories valued using the LIFO method totaled $554.5 million at June 30, 2006 and $410.5 million at December 31, 2005.

If in some future period, the Company was not able to recover the LIFO value of its inventory at a profit when replacement costs were lower than the LIFO value of the inventory, the Company would be required to take a charge to recognize in its income statement all or a portion of the higher LIFO value of the inventory.

**6. Restructuring Charges**

Changes in accrued restructuring costs were as follows (in millions):

| | Severance and Related Costs | Facility Closing Costs | Total |
|---|---|---|---|
| Balance, December 31, 2005 | $ 1.0 | $ 0.5 | $ 1.5 |
| Provisions, net | (0.2) | | (0.2) |
| Utilization | (0.7) | (0.3) | (1.0) |
| Balance, June 30, 2006 | $ 0.1 | $ 0.2 | $ 0.3 |

The December 31, 2005 balance represents previously accrued costs related to the Company s discontinued operations and the closure of certain industrial cable and communications cable manufacturing facilities in prior years. The utilization of these provisions in the three and six fiscal months ended June 30, 2006 was $0.3 million and $0.7 million, respectively, of severance and related costs and $0.1 million and $0.3 million, respectively, of facility closing costs.

**7. Long-Term Debt**

Long-term debt consisted of the following (in millions):

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Senior notes due 2010 | $ 285.0 | $ 285.0 |
| Revolving loans | 96.0 | 115.1 |
| Spanish term loan | 35.6 | 35.4 |

| | | |
|---|---|---|
| Capital leases | 4.8 | 5.2 |
| Other | 23.9 | 10.9 |
| Total debt | 445.3 | 451.6 |
| Less current maturities | 20.0 | 6.4 |
| Long-term debt | $ 425.3 | $ 445.2 |

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## GENERAL CABLE CORPORATION AND SUBSIDIARIES
### Notes to Condensed Consolidated Financial Statements (Continued)

Weighted average interest rates on the above outstanding balances were as follows:

| | | |
|---|---|---|
| Senior notes due 2010 | 9.5% | 9.5% |
| Revolving loans | 6.6% | 6.4% |
| Spanish term loan | 3.7% | 3.4% |
| Capital leases | 6.5% | 6.5% |
| Other | 4.5% | 3.8% |

On November 24, 2003, the Company completed a comprehensive refinancing of its bank debt that improved its capital structure and provided increased financial and operating flexibility by reducing leverage, increasing liquidity and extending debt maturities. The refinancing included the following: (i) the private placement of 7-year senior unsecured notes, (ii) a new senior secured revolving credit facility, (iii) the private placement of redeemable convertible preferred stock and (iv) a public offering of common stock. The Company applied the net proceeds from these refinancing transactions to repay all amounts outstanding under its former senior secured revolving credit facility, senior secured term loans and accounts receivable asset-backed securitization facility and to pay fees and expenses related to the refinancing.

The senior unsecured notes (the Notes ) were issued in the amount of $285.0 million, bear interest at a fixed rate of 9.5% and mature in 2010. The estimated fair value of the Notes was approximately $297.8 million at June 30, 2006.

The senior secured revolving credit facility, as amended, is a five year $300.0 million asset based revolving credit agreement (the Credit Agreement ). The Credit Agreement, as amended, is guaranteed by the Company s U.S. subsidiaries and is secured by substantially all U.S. assets. The lenders have also received a pledge of all of the capital stock of the Company s existing domestic subsidiaries and any future domestic subsidiaries. Borrowing availability, as amended, is based on eligible U.S. accounts receivable and inventory and certain U.S. fixed assets. As of June 30, 2006, the Company had outstanding borrowings of $96.0 million and availability of approximately $161.0 million under the terms of the Credit Agreement. Availability of borrowings under the fixed asset component of the facility, as amended, is reduced quarterly over a seven-year period by $7.1 million per annum. This may result in a reduction in the overall availability depending upon the calculation of eligible accounts receivable and inventory. The facility also includes a sub-facility for letters of credit of up to $50.0 million. The Company had outstanding letters of credit related to this revolving credit agreement of $31.8 million at June 30, 2006.

During the fourth quarter of 2004, the Company amended the Amended and Restated Credit Agreement which lowered the borrowing rate at that point by 50 basis points, increased the annual capital spending limit and provided for the ability to swap up to $100 million of existing fixed rate Notes to a floating interest rate.

During the second quarter of 2005, the Company amended the Amended and Restated Credit Agreement which increased the borrowing limit on the senior secured revolving credit facility from $240.0 million to $275.0 million. Additionally, the amendment increased the maximum amount permitted under the facility for investments in joint ventures from $10 million to $25 million.

During the fourth quarter of 2005, the Company further amended the Amended and Restated Credit Agreement which increased the borrowing limit on the senior secured revolving credit facility from $275.0 million to $300.0 million. Additionally, the amendment extended the maturity date by almost two years to August 2010, lowered borrowing costs by approximately 65 basis points and reduced unused facility fees. Also, the amendment eliminated or relaxed several provisions, including eliminating the annual limit on capital expenditures, expanding permitted indebtedness to include acquired indebtedness of newly acquired foreign subsidiaries, and increasing the level of permitted loan-funded acquisitions. Finally, the amendment satisfied the financing conditions to the Company s inducement offer to convert shares of its 5.75% Series A Redeemable Convertible Preferred Stock into its common stock, which was announced and commenced on November 9, 2005. Specifically, the amendment permitted the Company to draw funds from its credit facility to pay the conversion offer premium plus the funds necessary to make a final dividend payment to holders of the preferred stock who converted their shares in the inducement offer. For more information on the inducement offer, see Note 16 of the Company s Notes to Consolidated Financial Statements as filed with the SEC on the Annual Report Form 10-K for 2005.

During the second quarter of 2006, the Company further amended the Amended and Restated Credit Agreement. The amendment removed the dollar limits on the amount of borrowings which the Company s foreign subsidiaries can enter into locally and increased the dollar amount which the Company can send from the U.S. to its foreign affiliates (via either

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

investments or advances) to $300 million, subject to excess availability, as defined, from the former limit of $10 million. The amendment also included the insertion of a provision to allow for a common stock buyback or common stock dividend program up to the lesser of $125 million or the maximum permitted by the existing Senior Note indenture. In addition, the amendment released the liens and guarantees of the Company s Canadian subsidiaries securing the facility and allowed for the entry into a broader range of other types of financing agreements than the previous Amended and Restated Credit Agreement.

Borrowings under the Credit Agreement, as amended, bear interest at a rate of LIBOR plus 1.00% to 1.75% and/or prime plus 0.00% to 0.50% depending upon the Company s excess availability, as defined by the Credit Agreement. The weighted average interest rate on borrowings outstanding under the Credit Agreement during the first six fiscal months of 2006 was 6.41%. Under the Credit Agreement, the Company pays a commitment fee of 0.25%, as amended, per annum on the unused portion of the commitment. In connection with the November 2003 refinancing and related subsequent amendments to the Credit Agreement, the Company incurred fees and expenses aggregating $8.6 million, which are being amortized over the term of the Credit Agreement.

The Credit Agreement, as amended, requires a minimum fixed charge coverage ratio, as defined, only when excess availability, as defined, is below a certain threshold. At June 30, 2006, the Company was in compliance with all covenants under the Credit Agreement.

On December 22, 2005, Grupo General Cable Sistemas, S.A., a wholly owned Spanish subsidiary of General Cable, entered into both a term loan facility and a revolving credit facility totaling 75 million. This combined facility was entered into to provide Euro-denominated borrowings to partly fund the subsidiary s acquisition of Silec® and to provide funds for general corporate needs of the European business. See Note 3 of this document for more details on the acquisition of Silec®.

The term loan facility of 50 million is available in up to three tranches, with an interest rate of Euribor plus 0.8% to 1.5% depending on certain debt ratios. The term loan is repayable in fourteen semi-annual installments, maturing seven years following the draw down of each tranche. As of June 30, 2006, the U.S. dollar equivalent of $35.6 million is currently drawn under this term loan facility, leaving undrawn availability of approximately $25.6 million.

The revolving credit facility of 25 million matures at the end of five years and carries an interest rate of Euribor plus 0.6% to 1.0% depending on certain debt ratios. No funds are currently drawn under this revolving credit facility, leaving undrawn availability of approximately the U.S. dollar equivalent of $32.0 million as of June 30, 2006. Commitment fees ranging from 15 to 25 basis points per annum on any unused commitments under the revolving credit facility will be assessed to Grupo General Cable Sistemas, S.A., and are payable on a quarterly basis.

The combined facility is subject to certain financial ratios of the European group, the most restrictive of which is net debt to EBITDA (earnings before interest, taxes, depreciation and amortization). In addition, the indebtedness under the combined facility is guaranteed by the Company s Portuguese subsidiary, General Cable Celcat Energia E Telecomunicacoes, S.A., and by the recently acquired Silec Cable, S.A.S.

During 2005 and the six fiscal months ended June 30, 2006, one of the Company s international operations contracted with a bank to transfer accounts receivable that it was owed from one customer to the bank in exchange for payments of approximately $1 million and $0.8 million, respectively. As the transferor, the Company surrendered control over the financial assets included in the transfers and has no further rights regarding the transferred assets. The transfers were treated as sales and the approximate $1.8 million received was accounted for as proceeds from the sales. All assets sold were removed from the Company s balance sheet upon completion of the transfers, and no further obligations exist under these agreements.

At June 30, 2006, maturities of long-term debt (excluding capital leases) during twelve month periods beginning July 1, 2006 through July 1, 2011 are $19.0 million, $5.8 million, $5.8 million, $5.8 million and $386.7 million, respectively, and $17.4 million thereafter.

At June 30, 2006, maturities of capital lease obligations during twelve month periods beginning July 1, 2006 through July 1, 2011 are $1.0 million, $1.0 million, $1.1 million, $1.1 million and $0.6 million, respectively.

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

**8. Financial Instruments**

General Cable is exposed to various market risks, including changes in interest rates, foreign currency and commodity prices. To manage risk associated with the volatility of these natural business exposures, General Cable enters into interest rate, commodity and foreign currency derivative agreements, as it relates to both transactions and the Company s net investment in its European operations, as well as copper and aluminum forward purchase agreements. General Cable does not purchase or sell derivative instruments for trading purposes.

General Cable has utilized interest rate swaps and interest rate collars to manage its interest expense exposure by fixing its interest rate on a portion of the Company s floating rate debt. Under the swap agreements, General Cable paid a fixed rate while the counterparty paid to General Cable the difference between the fixed rate and the three-month LIBOR rate.

During 2001, the Company entered into several interest rate swaps which effectively fixed interest rates for borrowings under the former credit facility and other debt. At June 30, 2006, the remaining outstanding interest rate swap had a notional value of $9.0 million, an interest rate of 4.49% and matures in October 2011. The Company does not provide or receive any collateral specifically for this contract. The fair value of interest rate derivatives, that qualify as cash flow hedges as defined in SFAS No. 133, are based on quoted market prices and third party provided calculations, which reflect the present values of the difference between estimated future variable-rate receipts and future fixed-rate payments. At June 30, 2006 and December 31, 2005, the net unrealized loss on the interest rate derivative and the related carrying value was $(0.2) million and $(0.4) million, respectively.

The Company enters into forward exchange contracts, that qualify as cash flow hedges as defined in SFAS No. 133, principally to hedge the currency fluctuations in certain transactions denominated in foreign currencies, thereby limiting the Company s risk that would otherwise result from changes in exchange rates. Principal transactions hedged during the year were firm sales and purchase commitments. The fair value of foreign currency contracts represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices. At June 30, 2006 and December 31, 2005, the net unrealized gain on the net foreign currency contracts was $0.8 million and $0.3 million, respectively.

Outside of North America, General Cable enters into commodity futures contracts, that qualify as cash flow hedges as defined in SFAS No. 133, for the purchase of copper and aluminum for delivery in a future month to match certain sales transactions. At June 30, 2006 and December 31, 2005, General Cable had an unrealized gain of $29.0 million and $11.6 million, respectively, on the commodity futures.

Unrealized gains and losses on the derivative financial instruments discussed above are recorded in other comprehensive income (loss) until the underlying transaction occurs and is recorded in the income statement at which point such amounts included in other comprehensive income (loss) are recognized in earnings which generally will occur over periods less than one year. During the three and six fiscal months ended June 30, 2006, a $2.6 million gain and a $5.5 million gain, respectively, was reclassified from other comprehensive income to the income statement. During the three and six fiscal months ended July 1, 2005, a $0.8 million gain and an $1.2 million gain, respectively, was reclassified from other comprehensive income to the income statement.

In October 2005, the Company entered into a U.S. dollar to Euro cross currency and interest rate swap agreement with a notional value of $150 million, that qualifies as a net investment hedge of the Company s net investment in its European operations, in order to hedge the effects of the changes in spot exchange rates on the value of the net investment. The swap has a term of just over two years with a maturity date of November 15, 2007. The fair value of the cross currency and interest rate swap is based on third party provided calculations. At June 30, 2006 and December 31, 2005, the net unrealized gain (loss) on the swap was $(10.2) million and $1.6 million, respectively. The swap is marked-to-market quarterly using the spot method to measure the amount of hedge ineffectiveness. Changes in the fair value of the swap as they relate to spot exchange rates are recorded as other comprehensive income (loss) whereas changes in the fair value of the swap as they relate to the interest rate differential and the change in interest rate differential since the last marked-to-market date, equaling approximately $(1.6) million and $1.0 million as of June 30, 2006 and December 31, 2005, respectively, are recognized currently in earnings for the period.

In North America, General Cable enters into forward pricing agreements for the purchase of copper and aluminum for delivery in a future month to match certain sales transactions. The Company accounts for these forward pricing arrangements under the normal purchases and normal sales scope exemption of SFAS No. 133 because these arrangements are for

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

purchases of copper and aluminum that will be delivered in quantities expected to be used by the Company over a reasonable period of time in the normal course of business. For these arrangements, it is probable at the inception and throughout the life of the arrangements that the arrangements will not settle net and will result in physical delivery of the inventory. At June 30, 2006 and December 31, 2005, General Cable had $198.3 million and $106.2 million, respectively, of future copper and aluminum purchases that were under forward pricing agreements. At June 30, 2006 and December 31, 2005, General Cable had unrealized gains of $13.2 million and $11.4 million, respectively, related to these transactions. General Cable expects to offset the unrealized gains under these agreements as a result of firm sale price commitments with customers.

**9. Pension Plans and Other Post-retirement Benefits**

General Cable provides retirement benefits through contributory and noncontributory pension plans covering certain of its domestic regular full-time employees and, to a lesser extent, international employees. Pension expense under the defined contribution plans sponsored by General Cable in the United States equaled up to four percent of each eligible employee s covered compensation. In addition, General Cable sponsors employee savings plans under which General Cable may match a specified portion of contributions made by eligible employees.

Benefits provided under defined benefit plans sponsored by General Cable are generally based on years of service multiplied by a specific fixed dollar amount. Contributions to these pension plans are based on generally accepted actuarial methods, which may differ from the methods used to determine pension expense. The amounts funded for any plan year are neither less than the minimum required under federal law nor more than the maximum amount deductible for federal income tax purposes.

General Cable also has post-retirement benefit plans that provide medical and life insurance for certain retirees and eligible dependents. General Cable funds the plans as claims or insurance premiums are incurred.

The components of net periodic benefit cost for pension and other post-retirement benefits were as follows (in millions):

| | Three Fiscal Months Ended | | | | Six Fiscal Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2006 | | July 1, 2005 | | June 30, 2006 | | July 1, 2005 | |
| | Pension | Other | Pension | Other | Pension | Other | Pension | Other |
| Service cost | $ 0.8 | $ | $ 0.7 | $ | $ 1.5 | $ 0.1 | $ 1.2 | $ |
| Interest cost | 2.7 | 0.2 | 2.5 | 0.2 | 5.2 | 0.3 | 4.9 | 0.3 |
| Expected return on plan assets | (2.8) | | (2.6) | | (5.6) | | (5.3) | |
| Net amortization and deferral | 1.2 | 0.1 | 0.9 | | 2.4 | 0.1 | 1.8 | |
| Curtailment (gain) loss | | | 0.7 | (0.2) | | | 0.7 | (0.2) |
| Total defined benefit plans expense | 1.9 | 0.3 | 2.2 | | 3.5 | 0.5 | 3.3 | 0.1 |
| Total defined contribution plans expense | 1.9 | | 1.5 | | 4.2 | | 3.3 | |
| Total | $ 3.8 | $ 0.3 | $ 3.7 | $ | $ 7.7 | $ 0.5 | $ 6.6 | $ 0.1 |

Defined benefit plan cash contributions for the three and six fiscal months ended June 30, 2006 were $1.3 million and $2.3 million, respectively. Defined benefit plan cash contributions for the three and six fiscal months ended July 1, 2005 were $1.1 million and $2.1 million, respectively.

The Company has additional contracts related to pension benefits outside of the United States not included in the tables and financial figures above due to their designation as nonparticipating annuity contracts as defined by SFAS 87. These annuity contracts cover 12 retired and 11 current employees in the Company s operations in Spain, and the contracts act as irrevocable transfers of risk from the Company to the other party to the contracts, an insurance company. The cost of the benefits covered by the annuity contracts is recorded based on the premiums, or costs, required to purchase the contracts. The service cost component of net pension cost was $0.3 million in 2005, $0.2 million in 2004, and $0.3 million in 2003. The benefits covered by the annuity contracts are excluded from the projected benefit obligation and the accumulated benefit obligation of the Company, and the annuity contracts are excluded from the Company s plan assets as required by SFAS 87.

**10. Shareholders Equity**

General Cable is authorized to issue 75 million shares of common stock and 25 million shares of preferred stock.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

In the fourth quarter of 2003, the Company completed a comprehensive refinancing of its bank debt. The refinancing included the private placement of 2,070,000 shares of redeemable convertible preferred stock and a public offering of 5,807,500 shares of common stock. As of June 30, 2006, 101,949 shares of redeemable convertible preferred stock remained outstanding. The reduction in redeemable convertible preferred stock shares is mainly due to an inducement offer made by the Company in the fourth quarter of 2005. For more information, see Note 16 of the Company s Notes to Consolidated Financial Statements as filed with the SEC on the Annual Report Form 10-K for 2005.

The preferred stock has a liquidation preference of $50.00 per share. Dividends accrue on the convertible preferred stock at the rate of 5.75% per annum and are payable quarterly in arrears. Dividends are payable in cash, shares of General Cable common stock or a combination thereof. Holders of the convertible preferred stock are entitled to convert any or all of their shares of convertible preferred stock into shares of General Cable common stock, at an initial conversion price of $10.004 per share. The conversion price is subject to adjustments under certain circumstances. General Cable is obligated to redeem all outstanding shares of convertible preferred stock on November 24, 2013 at par. The Company may, at its option, elect to pay the redemption price in cash or in shares of General Cable common stock with an equivalent fair value, or any combination thereof. The Company has the option to redeem some or all of the outstanding shares of convertible preferred stock in cash beginning on the fifth anniversary of the issue date. The redemption premium will initially equal one-half the dividend rate on the convertible preferred stock and decline ratably to par on the date of mandatory redemption. In the event of a change in control, the Company has the right to either redeem the preferred stock for cash or to convert the preferred stock to common stock.

The Company maintains a deferred compensation plan ( Deferred Compensation Plan ). This plan is available to directors and certain officers and managers of the Company. The plan allows participants to defer all or a portion of their directors fees and/or salary and annual bonuses, as applicable, and it permits participants to elect to contribute and defer all or any portion of his or her nonvested stock, restricted stock and stock awards. All deferrals to the participants accounts vest immediately; Company contributions vest according to the vesting schedules in the qualified plan, and nonvested stock and restricted stock vests according to the schedule designated by the award. The Company makes matching and retirement contributions (currently equal to 6%) of compensation paid over the maximum allowed for qualified pension benefits, whether or not the employee elects to defer any compensation. The Deferred Compensation Plan does not have dollar limits on tax-deferred contributions. The assets of the Deferred Compensation Plan are held in a Rabbi Trust ( Trust ) and, therefore, are available to satisfy the claims of the Company s creditors in the event of bankruptcy or insolvency of the Company. Participants have the right to request that their account balance be determined by reference to specified investment alternatives (with the exception of the portion of the account which consists of deferred nonvested and subsequently vested stock and restricted stock). With certain exceptions, these investment alternatives are the same alternatives offered to participants in the General Cable Retirement and Savings Plan for Salaried Associates. In addition, participants have the right to request that the Plan Administrator re-allocate the deferral among available investment alternatives; provided, however that the Plan Administrator is not required to honor such requests. Distributions from the plan are generally made upon the participants termination as a director and/or employee, as applicable, of the Company. Participants receive payments from the plan in cash, either as a lump sum payment or through equal annual installments from between one and ten years, except for the nonvested and subsequently vested stock and restricted stock, which the participants receive in shares of General Cable stock. The Company accounts for the Deferred Compensation Plan in accordance with EITF 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested.

Assets of the Trust, other than the nonvested and subsequently vested stock of the Company, are invested in funds covering a variety of securities and investment strategies, including a General Cable stock fund. Mutual funds available to participants are publicly quoted and reported at market value. The Company accounts for these investments in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Trust also holds nonvested and subsequently vested stock and restricted stock shares of the Company. The

Company s nonvested and subsequently vested stock and restricted stock that is held by the Trust has been accounted for in additional paid-in capital since the adoption of SFAS 123(R) on January 1, 2006, and prior to that date had been accounted for in other shareholders equity in the consolidated balance sheet, and the market value of this nonvested and subsequently vested stock and restricted stock was $24.3 million as of June 30, 2006 and $13.6 million as of December 31, 2005. The market value of the assets held by the Trust, exclusive of the market value of the shares of the Company s nonvested and subsequently vested stock and restricted stock, at June 30, 2006 and December 31, 2005 was $10.6 million and $8.3 million, respectively, and is classified as other non-current assets in the consolidated balance sheet. Amounts payable to the plan participants at June 30, 2006 and December 31, 2005, excluding the market value of the shares of the Company s nonvested and subsequently vested stock and

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

restricted stock, was $10.6 million and $8.3 million, respectively, and is classified as other liabilities in the consolidated balance sheet.

In accordance with EITF 97-14, all market value fluctuations of the Trust assets, exclusive of the shares of nonvested and subsequently vested stock and restricted stock of the Company, have been reflected in other comprehensive income (loss). Increases or decreases in the market value of the deferred compensation liability, excluding the shares of nonvested and subsequently vested stock and restricted stock of the Company held by the Trust, are included as compensation expense in the consolidated statements of operations. Based on the changes in the total market value of the Trust s assets, exclusive of the nonvested and subsequently vested stock and restricted stock, the Company recorded net compensation expense of $0.6 million and $0.7 million, respectively, for the three fiscal months ended June 30, 2006 and July 1, 2005 and $2.2 million and $0.3 million, respectively, for the six fiscal months ended June 30, 2006 and July 1, 2005. See Note 11 for compensation costs recorded on nonvested and subsequently vested stock shares and restricted stock.

In November 1998, General Cable entered into a Stock Loan Incentive Plan (SLIP) with executive officers and key employees. Under the SLIP, the Company loaned $6.0 million to facilitate open market purchases of General Cable common stock. A matching restricted stock unit (MRSU) was issued for each share of stock purchased under the SLIP. The fair value of the MRSUs at the grant date of $6.0 million, adjusted for subsequent forfeitures, was amortized to expense over the initial five-year vesting period. In June 2003, all executive officers repaid their loans plus interest that were originally made under the SLIP in the amount of $1.8 million. The Company accepted, as partial payment for the loans, common stock owned by the executive officers and restricted stock units previously awarded to them under the SLIP. In July 2003, the Company approved an extension of the loan maturity for the remaining participants in the SLIP for an additional three years to November 2006, subject in the extension period to a rate of interest of 5.0%. As part of the loan extension the vesting schedule on the MRSUs was also extended so that the MRSUs vest in November 2006. During the third quarter of 2004, certain employees repaid their loans plus interest that were originally made under the SLIP in the amount of $1.4 million. The Company accepted, as partial payment for the loans, common stock owned by the employees and restricted stock units previously awarded to them under the SLIP. During the second quarter of 2005, the remaining participants in the SLIP repaid their loans plus interest that were originally made under the SLIP in the amount of $2.2 million. The Company accepted, as partial payment for the loans, common stock owned by the employees and restricted stock units previously awarded to them under the SLIP. Approximately $0.2 million of the loans were forgiven. There are no MRSUs outstanding as of June 30, 2006.

The components of accumulated other comprehensive income (loss) consisted of the following (in millions):

| | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Foreign currency translation adjustment | $ 26.2 | $ 14.2 |
| Pension adjustments, net of tax | (33.4) | (33.4) |
| Change in fair value of derivatives, net of tax | 12.6 | 8.5 |
| Unrealized investment gains | 5.7 | 3.5 |
| Other | 0.4 | 0.4 |
| Total | $ 11.5 | $ (6.8) |

Other shareholders equity consisted of the following (in millions):

| | June 30, | December 31, |
|---|---|---|

| | 2006 | 2005 |
|---|---|---|
| Loans to shareholders | $ | $ |
| Nonvested stock | | (4.8) |
| Total | $ | $ (4.8) |

The nonvested stock amount was reclassed to additional paid-in capital as part of the adoption of SFAS 123(R). See Note 11 for details.

**11. Share-Based Compensation**

The adoption of SFAS 123(R) s fair value method has resulted in share-based expense in the amount of $0.5 million and $0.7 million, respectively, related to stock options for the three and six fiscal months ended June 30, 2006, which is included as a

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

component of selling, general and administrative expenses. No compensation expense related to stock options was recorded during the three and six fiscal months ended July 1, 2005 under APB 25. In addition, the Company continued to record compensation expense related to nonvested stock awards as a component of selling, general and administrative expense. The three and six fiscal months ended June 30, 2006 included $0.6 million and $0.9 million, respectively, of compensation costs related to performance-based nonvested stock awards (as compared to $0.2 million and $0.3 million, respectively, for the three and six fiscal months ended July 1, 2005) and $1.3 million and $1.6 million, respectively, related to all other nonvested stock awards (as compared to $0.1 million and $0.2 million, respectively, for the three and six fiscal months ended July 1, 2005). For the three and six fiscal months ended June 30, 2006, all share-based compensation costs lowered pre-tax earnings by $2.4 million and $3.3 million, respectively, lowered net income by $1.6 million and $2.1 million, respectively, and lowered basic and diluted earnings per share by $0.03 per share and $0.04 per share, respectively.

SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required prior to SFAS 123(R). For the three and six fiscal months ended June 30, 2006, the $5.1 million and $8.4 million, respectively, excess tax benefit classified as a financing cash flow would have been classified as an operating cash inflow if the Company had not adopted SFAS 123(R). The Company has elected the alternative method, as discussed in SFAS 123(R)-3, to calculate the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123(R).

General Cable currently has share-based compensation awards outstanding under three plans. These plans allow the Company to fulfill its incentive award obligations generally by granting nonqualified stock options and nonvested stock awards. New shares are issued when nonqualified stock options are exercised and when nonvested stock awards are granted. There have been no material modifications made to these plans during the three and six fiscal months ended June 30, 2006. On May 10, 2005, the General Cable Corporation 2005 Stock Incentive Plan ( 2005 Plan ) was approved and replaced the two previous equity compensation plans, the 1997 Stock Incentive Plan and the 2000 Stock Option Plan. The Compensation Committee of the Board of Directors will no longer grant any awards under the previous plans but will continue to administer awards which were previously granted under the 1997 and 2000 plans. The 2005 Plan authorized a maximum of 1,800 thousand shares to be granted. Shares reserved for future grants, including options, under the 2005 Plan, approximated 1,441 thousand at June 30, 2006.

The 2005 Stock Incentive Plan authorizes the following types of awards to be granted: (i) Stock Options (both Incentive Stock Options and Nonqualified Stock Options); (ii) Stock Appreciation Rights; (iii) Nonvested and Restricted Stock Awards; (iv) Performance Awards; and (v) Stock Units, as more fully described in the 2005 Plan. Each award is subject to such terms and conditions consistent with the 2005 Plan as determined by the Compensation Committee and as set forth in an award agreement and awards under the 2005 Plan were granted at not less than the closing market price on the date of grant.

The 2000 Stock Option Plan ( 2000 Plan ) as amended authorized a maximum of 1,500 thousand non-incentive options to be granted. No other forms of award were authorized under this plan. Stock options were granted to employees selected by the Compensation Committee of the Board or the Chief Executive Officer at prices which were not less than the closing market price on the date of grant. The Compensation Committee (or Chief Executive Officer) had authority to set all the terms of each grant.

The 1997 Stock Incentive Plan ( 1997 Plan ) authorized a maximum of 4,725 thousand nonvested shares, options or units of common stock to be granted. Stock options were granted to employees selected by the Compensation Committee of the Board or the Chief Executive Officer at prices which were not less than the closing market price on the date of grant. The Compensation Committee (or Chief Executive Officer) had authority to set all the terms of each grant.

***Stock Options***

All options awarded under the 2005 Plan have a term of 10 years from the grant date. The majority of the options vest three years from grant date. The majority of the options granted under the 2000 Plan expire in 10 years and become fully exercisable ratably over three years of continued employment or become fully exercisable after three years of continued employment. The majority of the options granted under the 1997 Plan expire in 10 years and become fully exercisable ratably over three years of continued employment or become fully exercisable after three years of continued employment.

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

A summary of stock option activity since the Company s most recent fiscal year end is as follows (options in thousands):

| | Options Outstanding | Weighted Average Exercise Price |
|---|---|---|
| Balance At December 31, 2005 | 3,144 | $ 10.90 |
| Granted | 109 | 23.24 |
| Exercised | (1,214) | 12.19 |
| Forfeited or Expired | (34) | 21.86 |
| Balance At June 30, 2006 | 2,005 | $ 10.61 |

At June 30, 2006, the aggregate intrinsic value of all outstanding options was $48.9 million with a weighted average remaining contractual term of 5.7 years, of which 1,702 thousand of the outstanding options are currently exercisable with an aggregate intrinsic value of $43.0 million, a weighted average exercise price of $9.74 and a weighted average remaining contractual term of 5.1 years. Since December 31, 2005, the weighted average grant date fair value of options granted was $12.75, the total intrinsic value of options exercised was $22.8 million and 979 thousand options have vested, net of forfeitures, with a total fair value of $2.6 million. At June 30, 2006, the total compensation cost related to nonvested options not yet recognized was $1.4 million with a weighted average expense recognition period of 3 years.

Additional information regarding options outstanding as of June 30, 2006 is as follows (options in thousands):

| Range of Option Prices | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Options Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $0 - $7 | 737 | $ 4.04 | 6.6 years | 718 | $ 4.00 |
| $7 - $14 | 923 | 11.76 | 5.3 years | 750 | 11.77 |
| $14 - $21 | 67 | 14.30 | 3.2 years | 66 | 14.28 |
| $21 - $28 | 277 | 23.32 | 5.0 years | 168 | 23.40 |
| $28 - $35 | 1 | 31.98 | 9.8 years | | |

*Nonvested Stock*

The majority of the nonvested stock awards issued under the 2005 Plan are restricted as to transferability and salability with these restrictions being removed in equal annual installments over the five-year period following the grant date. The majority of the nonvested stock awards issued under the 1997 Plan are restricted as to transferability and salability with these restrictions expiring ratably over a three-year or five-year period, expiring after six years from the date of grant or expiring ratably from the second anniversary to the sixth anniversary of the date of grant. Also, a minimal amount of immediately vesting restricted stock held by certain members of the Company s Board of Directors in the Deferred Compensation Plan are included in this presentation as nonvested stock.

During the first quarter of 2001 and 2004, approximately 356 thousand and 341 thousand, respectively, nonvested common stock shares with performance accelerated vesting features were awarded to certain senior executives and key employees under the Company s 1997 Stock Incentive Plan, as amended. The nonvested shares vest either six years from the date of grant or ratably from the second anniversary of the date of grant to the sixth anniversary unless certain performance criteria are met. The performance measure used to determine vesting is either the Company s stock price or earnings per share. As of June 30, 2006, 696 thousand shares were issued as nonvested performance shares and approximately 461 thousand shares have vested. Approximately 45 thousand shares have been cancelled. Prior to January 1, 2006, unearned stock compensation was recorded within shareholders equity at the date of award based on the quoted market price of the Company s common stock on the date of grant and was amortized to expense using the straight-line method from the grant date through the earlier of the vesting date or the estimated retirement eligibility date. Upon adoption of SFAS 123(R), the $4.8 million of unearned stock compensation as of December 31, 2005 was required to be charged against additional paid-in capital.

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

A summary of all nonvested stock activity since the Company s most recent fiscal year end is as follows (shares in thousands):

| | Shares Outstanding | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance At December 31, 2005 | 743 | $ 9.90 |
| Granted | 241 | 23.06 |
| Vested | (301) | 9.14 |
| Forfeited | (1) | 24.49 |
| Balance At June 30, 2006 | 682 | $ 14.70 |

As of June 30, 2006, there was $0.7 million of total unrecognized compensation cost related to performance-based nonvested stock and $7.0 million of total unrecognized compensation cost related to all other nonvested stock. The cost is expected to be recognized over a weighted average period of 2.6 years for the performance-based nonvested stock and 4.2 years for all other nonvested stock.

**12. Earnings Per Common Share**

A reconciliation of the numerator and denominator of earnings per common share to earnings per common share assuming dilution is as follows (in millions):

| | Three Fiscal Months Ended | | Six Fiscal Months Ended | |
|---|---|---|---|---|
| | June 30, 2006 | July 1, 2005 | June 30, 2006 | July 1, 2005 |
| Earnings per common share basic: | | | | |
| Net income | $ 41.5 | $ 11.8 | $ 62.9 | $ 20.8 |
| Less: preferred stock dividends | (0.1) | (1.5) | (0.2) | (3.0) |
| Net income for basic EPS computation (1) | $ 41.4 | $ 10.3 | $ 62.7 | $ 17.8 |
| Weighted average shares outstanding for basic EPS computation (2) | 50.8 | 39.4 | 50.4 | 39.3 |
| Earnings per common share basic | $ 0.81 | $ 0.26 | $ 1.24 | $ 0.45 |
| Earnings per common share diluted: | | | | |
| Net income | $ 41.5 | $ 11.8 | $ 62.9 | $ 20.8 |
| Less: preferred stock dividends, if applicable | n/a | n/a | n/a | n/a |
| Net income for diluted EPS computation(1) | $ 41.5 | $ 11.8 | $ 62.9 | $ 20.8 |
| Weighted average shares outstanding | 50.8 | 39.4 | 50.4 | 39.3 |
| Dilutive effect of stock options and restricted stock units | 0.9 | 1.2 | 0.9 | 1.2 |

| | | | | |
|---|---|---|---|---|
| Dilutive effect of assumed conversion of preferred stock, if applicable | 0.5 | 10.3 | 0.5 | 10.3 |
| Weighted average shares outstanding for diluted EPS computation(2) | 52.2 | 50.9 | 51.8 | 50.8 |
| Earnings per common share diluted | $ 0.80 | $ 0.23 | $ 1.21 | $ 0.41 |

(1) Numerator (2) Denominator

The earnings per common share assuming dilution computation excludes the impact of an insignificant amount of stock options in the three and six fiscal months ended June 30, 2006 and 1.0 million and 1.5 million, respectively, stock options and restricted stock units in the three and six fiscal months ended July 1, 2005 because their impact was anti-dilutive.

**13. Segment Information**

General Cable has three reportable operating segments: energy, industrial & specialty and communications. These segments are strategic business units organized around three product categories that follow management s internal organization structure.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

The energy segment manufactures and sells wire and cable products that include low-, medium-, high- and extra high-voltage power distribution and power transmission products. The industrial & specialty segment manufactures and sells wire and cable products that conduct electrical current for industrial, OEM, commercial and residential power and control applications. The communications segment manufactures and sells wire and cable products that transmit low-voltage signals for voice and data applications. Segment net sales represent sales to external customers. Segment operating income (loss) represents income (loss) before interest income, interest expense, other income (expense), other financial costs or income taxes. The operating loss included in corporate for the three and six fiscal months ended July 1, 2005 consisted of a $3.5 million charge related to the rationalization of certain of the Company s communications cable manufacturing facilities. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (see Note 2). The Company has recorded the operating items discussed above in the corporate segment rather than reflect such items in the energy, industrial & specialty or communications segments operating income because they are not considered in the operating performance evaluation of the energy, industrial & specialty or communications segments by the Company s chief operating decision-maker, its Chief Executive Officer.

Corporate assets included cash, deferred income taxes, certain property, including property held for sale, prepaid expenses and other current and non-current assets. The property held for sale consists of real property remaining from the Company s closure of certain manufacturing operations in the amount of $2.4 million at June 30, 2006 and $3.1 million at December 31, 2005. These properties are actively being marketed for sale.

Summarized financial information for the Company s operating segments for the three fiscal months and six fiscal months ended June 30, 2006 and July 1, 2005 and as of June 30, 2006 and December 31, 2005 is as follows (in millions).

| | Three Fiscal Months Ended | | | | |
|---|---|---|---|---|---|
| | Energy | Industrial & Specialty | Communications | Corporate | Total |
| Net Sales: | | | | | |
| June 30, 2006 | $ 359.5 | $ 443.1 | $ 184.5 | $ | $ 987.1 |
| July 1, 2005 | 212.4 | 252.1 | 144.1 | | 608.6 |
| Operating Income (Loss): | | | | | |
| June 30, 2006 | 25.2 | 30.8 | 14.4 | | 70.4 |
| July 1, 2005 | 15.4 | 10.2 | 5.9 | (3.5) | 28.0 |

| | Six Fiscal Months Ended | | | | |
|---|---|---|---|---|---|
| | Energy | Industrial & Specialty | Communications | Corporate | Total |
| Net Sales: | | | | | |
| June 30, 2006 | $ 659.6 | $ 797.3 | $ 334.5 | $ | $ 1,791.4 |
| July 1, 2005 | 408.9 | 493.3 | 260.6 | | 1,162.8 |
| Operating Income (Loss): | | | | | |
| June 30, 2006 | 43.7 | 50.7 | 18.2 | | 112.6 |
| July 1, 2005 | 27.7 | 19.4 | 8.6 | (3.5) | 52.2 |
| Identifiable Assets: | | | | | |
| June 30, 2006 | 583.6 | 730.9 | 349.1 | 160.5 | 1,824.1 |
| December 31, 2005 | 473.7 | 580.8 | 301.8 | 166.9 | 1,523.2 |

**14. Commitments and Contingencies**

Certain present and former operating sites, or portions thereof, currently or previously owned or leased by current or former operating units of General Cable are the subject of investigations, monitoring or remediation under the United States Federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund), the Federal Resource Conservation and Recovery Act or comparable state statutes or agreements with third parties. These proceedings are in various stages ranging from initial investigations to active settlement negotiations to implementation of the cleanup or remediation of sites.

Certain present and former operating units of General Cable in the United States have been named as potentially responsible parties (PRPs) at several off-site disposal sites under CERCLA or comparable state statutes in federal court proceedings. In

**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

each of these matters, the operating unit of General Cable is working with the governmental agencies involved and other PRPs to address environmental claims in a responsible and appropriate manner.

At June 30, 2006 and December 31, 2005, General Cable had an accrued liability of approximately $1.9 million and $2.3 million, respectively, for various environmental-related liabilities of which General Cable is aware. American Premier Underwriters Inc., a former parent of General Cable, agreed to indemnify General Cable against all environmental-related liabilities arising out of General Cable s or its predecessors ownership or operation of the Indiana Steel & Wire Company and Marathon Manufacturing Holdings, Inc. businesses (which were divested by General Cable), without limitation as to time or amount. While it is difficult to estimate future environmental-related liabilities accurately, General Cable does not currently anticipate any material adverse impact on its results of operations, financial position or cash flows as a result of compliance with federal, state, local or foreign environmental laws or regulations or cleanup costs of the sites discussed above.

As part of the acquisition of the worldwide energy cable and cable systems business of BICC plc, BICC plc agreed to indemnify General Cable against environmental liabilities existing at the date of the closing of the purchase of the business. The indemnity is for an eight-year period ending in 2007 while General Cable operates the businesses subject to certain sharing of losses (with BICC plc covering 95% of losses in the first three years, 80% in years four and five and 60% in the remaining three years). The indemnity is also subject to the overall indemnity limit of $150 million, which applies to all warranty and indemnity claims in the transaction. In addition, BICC plc assumed responsibility for cleanup of certain specific conditions at several sites operated by General Cable and cleanup is mostly complete at those sites. In the sale of the European businesses to Pirelli in August 2000, the Company generally indemnified Pirelli against any environmental-related liabilities on the same basis as BICC plc indemnified the Company in the earlier acquisition. However, the indemnity the Company received from BICC plc related to the European businesses sold to Pirelli terminated upon the sale of those businesses to Pirelli. At this time, there are no claims outstanding under the general indemnity provided by BICC plc. In addition, the Company generally indemnified Pirelli against other claims relating to the prior operation of the business. Pirelli has asserted claims under this indemnification. The Company is continuing to investigate these claims and believes that the reserve currently included in the Company s balance sheet is adequate to cover any obligation it may have.

General Cable had agreed to indemnify Raychem HTS Canada, Inc. against certain environmental liabilities arising out of the operation of the business it sold to Raychem HTS Canada, Inc. prior to its sale. The indemnity was for a five year period from the closing of the sale, which ended in April 2006, and was subject to an overall limit of $60 million. No outstanding claims exist under this expired indemnity.

General Cable has also agreed to indemnify Southwire Company against certain environmental liabilities arising out of the operation of the business it sold to Southwire prior to its sale. The indemnity is for a ten year period from the closing of the sale, which ends in the fourth quarter of 2011, and is subject to an overall limit of $20 million. At this time, there are no claims outstanding under this indemnity.

As part of the acquisition of Silec®, SAFRAN SA agreed to indemnify General Cable against environmental losses arising from breach of representations and warranties on environmental law compliance and against losses arising from costs General Cable could incur to remediate property acquired based on a directive of the French authorities to rehabilitate property in regard to soil, water and other underground contamination arising before the closing date of the purchase. These indemnities are for a six-year period ending in 2011 while General Cable operates the businesses subject to certain sharing of losses (with SAFRAN covering 100% of losses in year one, 75% in years 2 and 3, 50% in year 4, and 25% in years five and six). The indemnities are subject to an overall limit of 4.0 million.

In addition, Company subsidiaries have been named as defendants in lawsuits alleging exposure to asbestos in products manufactured by the Company. At June 30, 2006, there were approximately 7,550 non-maritime claims and 33,300 maritime asbestos claims outstanding. At June 30, 2006 and December 31, 2005, General Cable had accrued, on a gross basis, approximately $5.6 million for these lawsuits. At June 30, 2006 and December 31, 2005, General Cable had recorded insurance recoveries of approximately $0.5 million and $3.1 million, respectively, related to the asbestos lawsuits. The recorded insurance recoveries decreased during 2006 mainly due to the $3.0 million settlement in cash for the resolution of an insurer s obligations for coverage of asbestos liabilities under a series of insurance policies issued to the Company that effectively removed the insurance company s responsibilities, thus reducing the insurance recoveries balance.

The Company does not believe that the outcome of the litigation will have a material adverse effect on its results of operations, financial position or cash flows.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

General Cable is also involved in various routine legal proceedings and administrative actions. Such proceedings and actions should not, individually or in the aggregate, have a material adverse effect on its result of operations, cash flows or financial position.

In conjunction with the assessment that the Company carried out as a result of the requirements of FIN 47, Accounting for Conditional Asset Retirement Obligations, the Company identified various operating facilities that contain encapsulated asbestos that existing legislation would require the Company to dispose of with special procedures upon a demolition or major renovation of the facilities. No liability has currently been recognized on the Company s Condensed Consolidated Balance Sheet for these special procedures since the Company does not have the information available to estimate a range of potential settlement dates. Based on the consideration of past practice, asset economic life, recent and current changes in the industry and the Company including the reduction of capacity, the implementation of Lean initiatives, the growing importance of energy infrastructure and grid improvement and the growing interest in alternative energy sources, and the fact that the operating facilities are in full use and no plans in any budget, forecast or other forward-looking plan of the Company currently projects any of these facilities to undergo demolition or major renovation, an estimate is not possible. At any time in the future when any of these facilities is designated for demolition or major renovation or an assessment of the above factors indicates that demolition or major renovation may be necessary, the Company will then have the information it needs to estimate and record the potential liability, and the Company intends to do so at that time.

The Company s principal U.S. operating subsidiary has unconditionally guaranteed the payments required to be made to the parties involved in the cross currency and interest rate swap that the Company entered into in 2005. The guarantee continues until the commitment under the swap has been paid in full, including principal plus interest, with the final amount due in November 2007. The maximum exposure under this guarantee was approximately $178.4 million as of June 30, 2006, however the net exposure position was an unfavorable $6.8 million. As of June 30, 2006, the amount that was recorded for this liability was not significant.

The Company had outstanding letters of credit related to its revolving credit agreement of approximately $31.8 million and $34.4 million, respectively, as of June 30, 2006 and July 1, 2005. These letters of credit are primarily renewed on an annual basis, and the majority of the amount relates to risks associated with an outstanding industrial revenue bond, with self insurance claims and with defined benefit plan obligations.

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**

**15. Supplemental Guarantor Information**

General Cable Corporation and its material U.S. wholly-owned subsidiaries fully and unconditionally guarantee the $285.0 million of Senior Notes due 2010 of General Cable Corporation (the Issuer) on a joint and several basis. The following presents financial information about the Issuer, guarantor subsidiaries and non-guarantor subsidiaries in millions. As a result of the recent amendments to the Amended and Restated Credit Agreement, the Company s Canadian and Mexican subsidiaries were removed as guarantors of the Senior Notes. Therefore, all 2006 results present Canadian and Mexican subsidiaries in Non-Guarantor Subsidiaries. All of the Company s subsidiaries are restricted subsidiaries for purposes of the Senior Notes. Intercompany transactions are eliminated.

**Condensed Statements of Operations**
**Three Fiscal Months Ended June 30, 2006**

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Customers | $ | $ 478.1 | $ 509.0 | $ | $ 987.1 |
| Intercompany | 13.5 | | | (13.5) | |
| | 13.5 | 478.1 | 509.0 | (13.5) | 987.1 |
| Cost of sales | | 411.1 | 446.5 | | 857.6 |
| Gross profit | 13.5 | 67.0 | 62.5 | (13.5) | 129.5 |
| Selling, general and administrative expenses | 12.6 | 32.5 | 27.5 | (13.5) | 59.1 |
| Operating income | 0.9 | 34.5 | 35.0 | | 70.4 |
| Other income | | | 0.2 | | 0.2 |
| Interest income (expense): | | | | | |
| Interest expense | (8.8) | (15.1) | (2.0) | 13.6 | (12.3) |
| Interest income | 12.8 | 0.2 | 1.3 | (13.6) | 0.7 |
| | 4.0 | (14.9) | (0.7) | | (11.6) |
| Income before income taxes | 4.9 | 19.6 | 34.5 | | 59.0 |
| Income tax provision | (1.7) | (5.0) | (10.8) | | (17.5) |
| Net income | 3.2 | 14.6 | 23.7 | | 41.5 |
| Less: preferred stock dividends | (0.1) | | | | (0.1) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net income applicable to common shareholders | $ | 3.1 | $ | 14.6 | $ | 23.7 | $ | $ | 41.4 |

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Condensed Statements of Operations**
**Six Fiscal Months Ended June 30, 2006**

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Customers | $ | $ 855.2 | $ 936.2 | $ | $ 1,791.4 |
| Intercompany | 25.7 | | | (25.7) | |
| | 25.7 | 855.2 | 936.2 | (25.7) | 1,791.4 |
| Cost of sales | | 741.6 | 822.7 | | 1,564.3 |
| Gross profit | 25.7 | 113.6 | 113.5 | (25.7) | 227.1 |
| Selling, general and administrative expenses | 24.0 | 64.6 | 51.6 | (25.7) | 114.5 |
| Operating income | 1.7 | 49.0 | 61.9 | | 112.6 |
| Other income (expense) | | (0.3) | 1.3 | | 1.0 |
| Interest income (expense): | | | | | |
| Interest expense | (15.2) | (30.5) | (3.5) | 26.8 | (22.4) |
| Interest income | 25.3 | 0.3 | 2.4 | (26.8) | 1.2 |
| | 10.1 | (30.2) | (1.1) | | (21.2) |
| Income before income taxes | 11.8 | 18.5 | 62.1 | | 92.4 |
| Income tax provision | (4.1) | (5.4) | (20.0) | | (29.5) |
| Net income | 7.7 | 13.1 | 42.1 | | 62.9 |
| Less: preferred stock dividends | (0.2) | | | | (0.2) |
| Net income applicable to common shareholders | $ 7.5 | $ 13.1 | $ 42.1 | $ | $ 62.7 |

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Condensed Statements of Operations**
**Three Fiscal Months Ended July 1, 2005**

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Customers | $ | $ 408.1 | $ 200.5 | $ | $ 608.6 |
| Intercompany | 117.6 | | 5.4 | (123.0) | |
| | 117.6 | 408.1 | 205.9 | (123.0) | 608.6 |
| Cost of sales | 101.3 | 366.0 | 175.5 | (105.5) | 537.3 |
| Gross profit | 16.3 | 42.1 | 30.4 | (17.5) | 71.3 |
| Selling, general and administrative expenses | 14.1 | 31.5 | 15.2 | (17.5) | 43.3 |
| Operating income | 2.2 | 10.6 | 15.2 | | 28.0 |
| Other income (expense) | | (0.2) | 0.2 | | |
| Interest income (expense): | | | | | |
| Interest expense | (7.3) | (12.1) | (0.3) | 9.1 | (10.6) |
| Interest income | 10.0 | (0.1) | 0.7 | (9.1) | 1.5 |
| | 2.7 | (12.2) | 0.4 | | (9.1) |
| Income (loss) before income taxes | 4.9 | (1.8) | 15.8 | | 18.9 |
| Income tax provision | (1.7) | (0.3) | (5.1) | | (7.1) |
| Net income (loss) | 3.2 | (2.1) | 10.7 | | 11.8 |
| Less: preferred stock dividends | (1.5) | | | | (1.5) |
| Net income (loss) applicable to common shareholders | $ 1.7 | $ (2.1) | $ 10.7 | $ | $ 10.3 |

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Condensed Statements of Operations**
**Six Fiscal Months Ended July 1, 2005**

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales: | | | | | |
| Customers | $ | $ 760.0 | $ 402.8 | $ | $ 1,162.8 |
| Intercompany | 229.8 | | 10.6 | (240.4) | |
| | 229.8 | 760.0 | 413.4 | (240.4) | 1,162.8 |
| Cost of sales | 199.4 | 682.8 | 349.8 | (207.9) | 1,024.1 |
| Gross profit | 30.4 | 77.2 | 63.6 | (32.5) | 138.7 |
| Selling, general and administrative expenses | 26.6 | 60.1 | 32.3 | (32.5) | 86.5 |
| Operating income | 3.8 | 17.1 | 31.3 | | 52.2 |
| Other income (expense) | | (0.3) | 0.2 | | (0.1) |
| Interest income (expense): | | | | | |
| Interest expense | (14.7) | (23.7) | (1.5) | 19.0 | (20.9) |
| Interest income | 19.5 | (0.1) | 1.5 | (19.0) | 1.9 |
| | 4.8 | (23.8) | | | (19.0) |
| Income (loss) before income taxes | 8.6 | (7.0) | 31.5 | | 33.1 |
| Income tax (provision) benefit | (3.0) | 1.1 | (10.4) | | (12.3) |
| Net income (loss) | 5.6 | (5.9) | 21.1 | | 20.8 |
| Less: preferred stock dividends | (3.0) | | | | (3.0) |
| Net income (loss) applicable to common shareholders | $ 2.6 | $ (5.9) | $ 21.1 | $ | $ 17.8 |

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Condensed Balance Sheets**
**June 30, 2006**

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash | $ 0.1 | $ 9.4 | $ 49.5 | $ | $ 59.0 |
| Receivables, net of allowances | | 254.5 | 537.2 | | 791.7 |
| Inventories | | 185.3 | 213.9 | | 399.2 |
| Deferred income taxes | | 42.2 | 5.4 | | 47.6 |
| Prepaid expenses and other | 1.3 | 52.0 | 16.8 | | 70.1 |
| Total current assets | 1.4 | 543.4 | 822.8 | | 1,367.6 |
| Property, plant and equipment, net | 0.1 | 166.1 | 202.5 | | 368.7 |
| Deferred income taxes | 11.9 | 36.1 | 6.5 | | 54.5 |
| Intercompany accounts | 659.0 | 61.1 | 128.6 | (848.7) | |
| Investment in subsidiaries | 33.7 | 203.7 | | (237.4) | |
| Other non-current assets | 7.0 | 21.7 | 4.6 | | 33.3 |
| Total assets | $ 713.1 | $ 1,032.1 | $ 1,165.0 | $ (1,086.1) | $ 1,824.1 |
| **Liabilities and Shareholders Equity** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ | $ 205.7 | $ 442.1 | $ | $ 647.8 |
| Accrued liabilities | 3.4 | 74.3 | 133.7 | | 211.4 |
| Current portion of long-term debt | | 0.9 | 19.1 | | 20.0 |
| Total current liabilities | 3.4 | 280.9 | 594.9 | | 879.2 |
| Long-term debt | 285.0 | 108.7 | 31.6 | | 425.3 |
| Deferred income taxes | | 2.2 | 10.9 | | 13.1 |
| Intercompany accounts | 36.7 | 659.6 | 152.4 | (848.7) | |
| Other liabilities | 22.8 | 56.2 | 27.4 | | 106.4 |
| Total liabilities | 347.9 | 1,107.6 | 817.2 | (848.7) | 1,424.0 |
| Total shareholders equity (deficit) | 365.2 | (75.5) | 347.8 | (237.4) | 400.1 |
| Total liabilities and shareholders equity | $ 713.1 | $ 1,032.1 | $ 1,165.0 | $ (1,086.1) | $ 1,824.1 |

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**GENERAL CABLE CORPORATION AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements (Continued)**
**Condensed Balance Sheets**
**December 31, 2005**

| | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash | $ | $ 14.5 | $ 57.7 | $ | $ 72.2 |
| Receivables, net of allowances | | 219.3 | 323.6 | | 542.9 |
| Inventories | | 209.2 | 154.7 | | 363.9 |
| Deferred income taxes | | 40.0 | 1.9 | | 41.9 |
| Prepaid expenses and other | 1.2 | 31.9 | 15.5 | | 48.6 |
| Total current assets | 1.2 | 514.9 | 553.4 | | 1,069.5 |
| Property, plant and equipment, net | 0.2 | 206.2 | 160.0 | | 366.4 |
| Deferred income taxes | | 49.6 | 2.9 | | 52.5 |
| Intercompany accounts | 616.1 | 109.4 | 98.7 | (824.2) | |
| Investment in subsidiaries | 33.7 | 190.3 | | (224.0) | |
| Other non-current assets | 10.6 | 23.3 | 0.9 | | 34.8 |
| Total assets | $ 661.8 | $ 1,093.7 | $ 815.9 | $ (1,048.2) | $ 1,523.2 |
| **Liabilities and Shareholders Equity** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ | $ 168.6 | $ 303.7 | $ | $ 472.3 |
| Accrued liabilities | 3.3 | 95.7 | 113.2 | | 212.2 |
| Current portion of long-term debt | | 1.0 | 5.4 | | 6.4 |
| Total current liabilities | 3.3 | 265.3 | 422.3 | | 690.9 |
| Long-term debt | 285.0 | 128.3 | 31.9 | | 445.2 |
| Deferred income taxes | 1.1 | 2.4 | 9.9 | | 13.4 |
| Intercompany accounts | 34.5 | 698.1 | 91.6 | (824.2) | |
| Other liabilities | 12.3 | 54.3 | 13.8 | | 80.4 |
| Total liabilities | 336.2 | 1,148.4 | 569.5 | (824.2) | 1,229.9 |
| Total shareholders equity (deficit) | 325.6 | (54.7) | 246.4 | (224.0) | 293.3 |
| Total liabilities and shareholders equity | $ 661.8 | $ 1,093.7 | $ 815.9 | $ (1,048.2) | $ 1,523.2 |

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## GENERAL CABLE CORPORATION AND SUBSIDIARIES
## Notes to Condensed Consolidated Financial Statements (Continued)
## Condensed Statements of Cash Flows
## Six Fiscal Months Ended June 30, 2006

| | | Guarantor | Non-Guarantor ) | | | (7) |
|---|---|---|---|---|---|---|
| **Net interest income per statements of income** | $ | 16,137 | | $ | 17,162 | |

(1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale.
(2) Loan fees are included in interest income and are insignificant.
(3) Investment securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amount reported in the statements of income.
(4) Includes mortgagors and investors escrow accounts.
(5) Includes brokered deposits.
(6) Tax equivalent net interest rate spread represents the difference between the weighted-average tax equivalent yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.
(7) Tax equivalent net interest margin represents tax equivalent net interest income divided by average interest-earning assets.

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***Rate/Volume Analysis.*** The following table sets forth the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have on the Company s interest income and interest expense for the periods presented. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the rate and volume columns. For purposes of this table, changes attributable to both changes in rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

| | **Three Months Ended September 30, 2007 and 2006 Increase (Decrease) Due To** | | | **Nine Months Ended September 30, 2007 and 2006 Increase (Decrease) Due To** | | |
|---|---|---|---|---|---|---|
| ***(Dollars in Thousands)*** | **Rate** | **Volume** | **Net** | **Rate** | **Volume** | **Net** |
| **INTEREST-EARNING ASSETS:** | | | | | | |
| *Interest and Dividend Income:* | | | | | | |
| Loans [1][2] | $ 195 | $ 347 | $ 542 | $ (262) | $ 1,787 | $ 1,525 |
| Investment securities [3] | 94 | (2) | 92 | 433 | (94) | 339 |
| Other interest-earning assets | 23 | 26 | 49 | 71 | 25 | 96 |
| **Total interest-earning assets** | 312 | 371 | 683 | 242 | 1,718 | 1,960 |
| **INTEREST-BEARING LIABILITIES:** | | | | | | |
| *Interest Expense:* | | | | | | |
| Deposits [4] | 482 | 14 | 496 | 1,781 | 384 | 2,165 |
| Federal Home Loan Bank advances | 77 | 144 | 221 | 285 | 389 | 674 |
| Subordinated debt | (37) | 4 | (33) | (92) | 241 | 149 |
| **Total interest-bearing liabilities** | 522 | 162 | 684 | 1,974 | 1,014 | 2,988 |
| **CHANGE IN NET INTEREST INCOME [3]** | $ (210) | $ 209 | $ (1) | $ (1,732) | $ 704 | $ (1,028) |

(1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale.
(2) Loans fees are included in interest income and are insignificant.
(3) Investment securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amount reported in the statements of income.
(4) Includes mortgagors and investors escrow accounts and brokered deposits.

**Results of Operations for the Three and Nine Months Ended September 30, 2007 and 2006**

***General.*** The Company s results of operations depend primarily on net interest income, which is the difference between the interest and dividend income earned on the Company s interest-earning assets, such as loans and investments, and the interest expense on its interest-bearing liabilities, such as deposits and borrowings. The Company also generates noninterest income such as gains on securities and loan sales, fees from deposit and trust and investment management services, insurance commissions, increases in cash

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surrender value of bank-owned life insurance and other fees. The Company s noninterest expenses consist of salaries and employee benefits, occupancy and equipment, computer and electronic banking services, outside professional services, marketing and other general and administrative expenses. The Company s results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, governmental policies and actions of regulatory agencies.

***Summary.*** The Company recorded net income of $128,000 for the three months ended September 30, 2007, a decrease of $429,000 compared to $557,000 for the three months ended September 30, 2006. The decrease was primarily attributable to increases of $480,000 in noninterest expenses and $379,000 in the provision for loan losses, offset by an increase of $227,000 in noninterest income and a decrease of $203,000 in the provision for income taxes.

Net income decreased $1.2 million to $954,000 for the nine months ended September 30, 2007 due to an increase of $1.4 million in noninterest expenses, a decrease of $1.0 million in net interest income and an increase of $194,000 in the provision for loan losses, offset by an increase of $834,000 in noninterest income and a decrease in the provision for income taxes of $642,000.

Net interest income remained unchanged at $5.5 million for the three months ended September 30, 2007 and 2006. For the nine months ended September 30, 2007, net interest income declined in response to a higher cost of funds primarily related to interest paid on deposit accounts and a greater volume of interest-bearing liabilities, offset by an increase in the average balance of loans. Despite increases in interest income for the three and nine months ended September 30, 2007, the net interest margin decreased 10 and 35 basis points, respectively, from the same period in 2006. The continual flattening of the yield curve and compression of the margins provides challenges for management in an effort to minimize the impact on net interest income.

On September 18, 2007, the Federal Open Market Committee of the Federal Reserve Board of Governors (the FOMC ) reduced the overnight lending rate (the fed funds rate ) by 50 basis points to 4.75%. This was the first reduction in the fed funds rate in 13 quarters. On October 31, 2007, the FOMC reduced the fed funds rate by an additional 25 basis points to 4.50%. Prior to the September 18, 2007 action, the FOMC raised the fed funds rate from 1.00% to 5.25% in 25 to 50 basis point increments between June 30, 2004 and June 29, 2006.

Although the September 2007 reduction in the fed funds rate triggered a reduction in market rates of interest, the magnitude of the decline in intermediate and long-term rates was considerably less than the magnitude of the decline in short-term interest rates. The impact of the FOMC s most recent rate reductions is unknown at this time.

***Interest and Dividend Income.*** Total interest and dividend income increased $684,000, or 6.6%, for the third quarter of 2007. Average interest-earning assets increased $24.7 million to $722.6 million, primarily due to a higher volume of loans and, to a lesser extent, federal funds and other interest-bearing assets, offset by a decrease in average securities. Average loans increased $21.8 million and the rate earned on loans increased 14 basis points to 6.35% for the third quarter of 2007 from 6.21% for the same period in 2006. Increases in the average balance and yield on Federal funds and other interest-bearing assets were $3.0 million and 178 basis points, respectively. Average securities declined $132,000, offset by an increase in yield from 4.46% to 4.75%.

For the nine months ended September 30, 2007, interest and dividend income increased $2.0 million to $32.2 million due to a higher average balance of loans and an increase in the average yield on interest-earning assets from 5.91% to 5.99%. Average yields on securities increased 45 basis points from 4.32% to 4.77% for the first nine months of 2007 compared to the same period in 2006 due to the Company s repositioning of its investment securities into longer-term and higher-yielding mortgage-backed securities. For the nine months ended September 30, 2007, the average yield on loans was negatively impacted by the reversal of approximately $299,000 of interest income relating to loans placed on nonaccrual status during 2007.

***Interest Expense.*** Interest expense increased $684,000, or 14.3%, to $5.5 million for the third quarter of 2007 compared to $4.8 million for the third quarter of 2006, primarily as a result of the rate paid on deposit accounts and an increase in the average balance of interest-bearing liabilities. The yield on deposit accounts increased 34 basis points due to market interest rates, promotional rates and competitive pricing. Average deposits rose $8.5 million. The increase in average deposits includes $11.8 million in NOW and money market accounts and $2.8 million in certificates of deposit accounts, offset by a decrease of $6.0 million in savings accounts. Average Federal Home Loan Bank advances increased $12.7 million and the yield on Federal Home Loan Bank borrowings increased 29 basis points to 4.60%. The average volume of subordinated debt increased $134,000, while the rate paid on these borrowings decreased 172 basis points from 8.65% to 6.93%. Interest expense on subordinated debt borrowings will continue to decrease during the remainder of 2007 due to the redemption of $7.2 million of debentures during the second quarter of 2007.

For the nine months ended September 30, 2007, interest expense increased $3.0 million as a result of increases in both the average yield from 2.99% to 3.50% and the average balance of interest-bearing liabilities from $583.9 million to $613.5 million. Higher interest expense for the first nine months of 2007 was primarily attributable to the 52 basis point increase in the average yield on deposit accounts due to market interest rates and an increase of $29.5 million in the average balance of interest-bearing liabilities, with deposits and borrowings contributing $14.1 million and $15.5 million, respectively.

***Provision for Loan Losses.*** The Company s provision for loan losses increased $379,000 and $194,000 for the three and nine months ended September 30, 2007. While the Company has no direct exposure to sub-prime mortgages, the current real estate environment has negatively impacted the local real estate market. The Company increased its provision for loan losses during the third quarter of 2007 to reflect an increase in nonperforming assets and the classification of certain construction loans due to the borrower s difficulty in selling the completed properties in a timely manner due to the slowdown in the real estate market. The provision for the quarter ended September 30, 2007, also included an increase to specific reserves of $115,000 related to an impaired commercial construction loan based on the current fair value of the underlying collateral.

***Noninterest Income.*** The following table shows the components of noninterest income and the dollar and percentage changes for the periods presented.

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in Thousands)* | 2007 | 2006 | $ Change | % Change | 2007 | 2006 | $ Change | % Change |
| Service fees | $ 1,248 | $ 1,164 | $ 84 | 7.2% | $ 3,530 | $ 3,488 | $ 42 | 1.2% |
| Wealth management fees | 967 | 863 | 104 | 12.1 | 2,859 | 2,533 | 326 | 12.9 |
| Increase in cash surrender value of bank-owned life insurance | 75 | 67 | 8 | 11.9 | 219 | 204 | 15 | 7.4 |
| Net gain (loss) on sale of securities | (215) | (172) | (43) | 25.0 | 106 | (284) | 390 | (137.3) |
| Net gain on sale of loans | 40 | 37 | 3 | 8.1 | 105 | 72 | 33 | 45.8 |
| Other | 84 | 13 | 71 | 546.2 | 116 | 88 | 28 | 31.8 |
| **Total noninterest income** | $ 2,199 | $ 1,972 | $ 227 | 11.5% | $ 6,935 | $ 6,101 | $ 834 | 13.7% |

Noninterest income was $2.2 million for the quarter ended September 30, 2007 compared to $2.0 million for the quarter ended September 30, 2006. Noninterest income was $6.9 million for the nine months ended September 30, 2007 compared to $6.1 million for the same period of 2006. Contributing to the increase in noninterest income for the three and nine months ended September 30, 2007, were increases in wealth management fees of $104,000 and $326,000, respectively, and service fees of $84,000 and $42,000, respectively. Wealth management fees were higher principally due to growth in the market value of assets under administration. Increases in service fees for the three and nine months ended September 30, 2007 relate to fees associated with a new deposit product and electronic banking usage. The quarter ended September 30, 2007 included a net loss of $215,000 on the sale of $17.2 million of government-sponsored enterprise securities, as a result of a repositioning of the Company s investment portfolio to benefit from the steeper yield curve. The proceeds were reinvested into longer-term and higher-yielding mortgage-backed securities. For the nine months ended September 30, 2007, the increase of $390,000 on the sale of available for sale securities included a gain of $321,000 from the sale of marketable equity securities during the first quarter.

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***Noninterest Expenses*.** The following table shows the components of noninterest expenses and the dollar and percentage changes for the periods presented.

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| ***(Dollars in Thousands)*** | **2007** | **2006** | **$ Change** | **% Change** | **2007** | **2006** | **$ Change** | **% Change** |
| Salaries and employee benefits | $ 3,826 | $ 3,491 | $ 335 | 9.6% | $ 11,342 | $ 10,778 | $ 564 | 5.2% |
| Occupancy and equipment | 1,324 | 1,231 | 93 | 7.6 | 3,990 | 3,593 | 397 | 11.0 |
| Computer and electronic banking services | 661 | 662 | (1) | (0.2) | 1,930 | 1,921 | 9 | 0.5 |
| Outside professional services | 240 | 248 | (8) | (3.2) | 832 | 784 | 48 | 6.1 |
| Marketing and advertising | 178 | 234 | (56) | (23.9) | 587 | 591 | (4) | (0.7) |
| Supplies and printing | 117 | 131 | (14) | (10.7) | 393 | 395 | (2) | (0.5) |
| Other | 691 | 560 | 131 | 23.4 | 1,954 | 1,554 | 400 | 25.7 |
| **Total noninterest expenses** | $ 7,037 | $ 6,557 | $ 480 | 7.3% | $ 21,028 | $ 19,616 | $ 1,412 | 7.2% |

Noninterest expenses increased for both the three and nine months ended September 30, 2007 compared to the same periods in 2006, primarily due to increased operating costs associated with the expansion of branch offices and other noninterest expenses. New branch offices resulted in higher occupancy and equipment expense relative to additional operating lease payments, depreciation expense and other occupancy-related expenses. Compensation costs were higher in 2007 due to increased staffing levels associated with new branch offices, offset by a reduction in performance-based compensation which included lower loan origination commissions resulting from a decline in new loan volume. An increase in the provision for credit losses for off-balance sheet commitments contributed to the increase in other noninterest expenses for 2007. Outside professional services expense was higher for the nine months ended September 30, 2007 but lower in the third quarter of 2007 due to the termination of the agreement to purchase a mortgage company during the first quarter, resulting in a charge to operations for purchase-related transaction costs associated with the termination, offset by a reduction in auditing expenditures.

***Income Tax Provision.*** For the three and nine months ended September 30, 2007, the Company s income tax expense decreased $203,000 and $642,000, respectively. The effective tax rate for the three months ended September 30, 2007 and 2006 was 16.9% and 29.1%, respectively. The effective tax rate for the nine months ended September 30, 2007 and 2006 was 26.8% and 32.0%, respectively. The effective tax rates for the three and nine months ended September 30, 2007 was impacted for the timing of deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

**Liquidity and Capital Resources**

Liquidity is the ability to meet current and future financial obligations of a short-term nature. The Company s primary sources of funds consist of deposit inflows, loan repayments and sales, maturities and sales of investment securities and Federal Home Loan Bank and subordinated debt borrowings. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, mortgage prepayments and loan and security sales are greatly influenced by general interest rates, economic conditions and competition.

The Company s most liquid assets are cash and cash equivalents. The levels of these assets depend on the Company s operating, financing and investing activities during any given period. At September 30, 2007, cash and cash equivalents totaled $15.9 million, which included interest-bearing deposits and federal funds sold of $3.0 million.

Securities classified as available for sale, which provide additional sources of liquidity, totaled $126.5 million at September 30, 2007. In addition, at September 30, 2007, the Company had the ability to borrow $238.1 million from the Federal Home Loan Bank, which included overnight lines of credit of $10.0 million, before deducting outstanding advances. On that date, the Company had advances outstanding of $122.7 million and no overnight lines of credit advances outstanding. The Company believes that its most liquid assets combined with the available line from the Federal Home Loan Bank provide adequate liquidity to meet its current financial obligations.

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The Company s primary investing activities are the origination of loans and the purchase of securities. For the nine months ended September 30, 2007, the Company originated $100.3 million of loans and purchased $40.3 million of securities, excluding Federal Home Loan Bank stock. For the twelve months ended December 31, 2006, the Company originated $168.7 million of loans and purchased $31.7 million of securities.

Financing activities consist primarily of activities in deposit accounts and Federal Home Loan Bank advances. Liquidity needed to fund asset growth has historically been provided through deposits, Federal Home Loan Bank borrowings, raising capital through the issuance of trust preferred securities and the initial public offering. The Company experienced a net increase in total deposits, including mortgagors and investors escrow accounts, of $4.8 million, $29.6 million and $51.8 million for the nine months ended September 30, 2007 and for the years ended December 31, 2006 and 2005, respectively. Certificates of deposit due within one year of September 30, 2007 totaled $212.8 million, or 39.0%, of total deposits. Deposit flows are affected by the overall level of interest rates, products offered by the Company and its local competitors and other factors. The Company generally manages the pricing of its deposits to be competitive and to increase core deposits and commercial banking relationships. Occasionally, the Company offers promotional rates on certain deposit products to attract deposits. The Company believes, based on past experience, that a significant portion of the certificates of deposit maturing within one year will remain with the Company. The Company experienced a net increase of $10.8 million in Federal Home Loan Bank advances for the nine months ended September 30, 2007. The Company had net increases of $24.0 million and $15.3 million in Federal Home Loan Bank advances for the years ended December 31, 2006 and 2005, respectively. The Company redeemed $7.2 million of debentures during the second quarter of 2007. For the nine months ended September 30, 2007, the Company repurchased 185,820 shares of common stock at a cost of $2.0 million. *Additional discussion about the Company s liquidity and capital resources is contained in Item 7 in the Company s 2006 Annual Report on Form 10-K. Reference the comparison of financial condition in this report for further details on the Company s capital resources.*

**Payments Due Under Contractual Obligations**

Information relating to payments due under contractual obligations is presented in the Company s Form 10-K for the year ended December 31, 2006. There were no material changes in the Company s payments due under contractual obligations between December 31, 2006 and September 30, 2007.

**Off-Balance Sheet Arrangements**

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with accounting principles generally accepted in the United States of America, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers requests for funding and take the form of loan commitments, lines of credit and letters of credit.

The contractual amount of commitments to extend credit represent the amount of potential accounting losses should the contract be fully drawn upon, the customer defaults and the value of any existing collateral becomes worthless. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Financial instruments whose contract amounts represent credit risk at September 30, 2007 and December 31, 2006 are as follows:

| *(Dollars in Thousands)* | **September 30, 2007** | **December 31, 2006** |
|---|---|---|
| Commitments to extend credit: (1) | | |
| Future loan commitments (2) | $ 16,371 | $ 7,658 |
| Undisbursed construction loans | 19,900 | 27,010 |
| Undisbursed home equity lines of credit | 21,089 | 21,554 |
| Undisbursed commercial lines of credit | 13,564 | 12,070 |
| Overdraft protection lines | 1,469 | 1,424 |
| Standby letters of credit (3) | 605 | 1,178 |
| **Total commitments** | $ 72,998 | $ 70,894 |

(1) Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments may require payment of a fee and generally have fixed expiration dates or other termination clauses.

(2) Includes fixed-rate loan commitments of $6.7 million at interest rates ranging from 3.00% to 8.25% and $2.6 million at interest rates ranging from 5.125% to 8.000% at September 30, 2007 and December 31, 2006, respectively.

(3) Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party.

Outstanding commitments for the construction of a new branch facility in the aggregate totaled approximately $229,000 at September 30, 2007.

For the nine months ended September 30, 2007, with the exception of the aforementioned commitments, the Company did not engage in any additional off-balance sheet transactions reasonably likely to have a material effect on the Company s financial condition, results of operations or cash flows. *See Notes 6 and 12 to the consolidated financial statements contained in the Company s 2006 Annual Report on Form 10-K.*

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

### *Qualitative Aspects of Market Risk*

The primary market risk factor affecting the financial condition and operating results of the Company is interest rate risk. Interest rate risk is the exposure of current and future earnings and capital arising from movements in interest rates. This risk is managed by periodic evaluation of the interest rate risk inherent in interest-earning assets and interest-bearing liabilities in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may decrease earnings while decreases in interest rates may increase earnings. To reduce the potential volatility of earnings, the Company has sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Pursuant to this strategy, the Company originates adjustable-rate mortgage loans for retention in its loan portfolio. However, the ability to originate adjustable-rate loans depends, to a great extent, on market interest rates and borrowers preferences. As an alternative to adjustable-rate mortgage loans, the Company offers fixed-rate mortgage loans with maturities of fifteen years. This product enables the Company to compete in the fixed-rate mortgage market while maintaining a shorter maturity. Fixed-rate mortgage loans typically have an adverse effect on interest rate sensitivity compared to adjustable-rate loans. Accordingly, the Company has sold longer-term fixed-rate mortgage loans in the secondary market in an effort to manage interest rate risk. In recent years, the Company also has used investment securities with terms of three years or less, longer-term borrowings from the Federal Home Loan Bank and brokered deposits to help manage interest rate risk. The Company currently does not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments.

The Company has an Asset/Liability Committee to communicate, coordinate and control all aspects involving asset and liability management. The Committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

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***Quantitative Aspects of Market Risk***

The Company analyzes its interest rate sensitivity position to manage the risk associated with interest rate movements through the use of interest income simulation. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The Company s goal is to manage asset and liability positions to moderate the effect of interest rate fluctuations on net interest income.

***Income Simulation Analysis.*** Interest income simulations are completed quarterly and presented to the Company s Asset/Liability Committee. The simulations provide an estimate of the impact of changes in interest rates on net interest income under a range of assumptions. The numerous assumptions used in the simulation process are reviewed by the Asset/Liability Committee on a quarterly basis. Changes to these assumptions can significantly affect the results of the simulation. The simulation incorporates assumptions regarding the potential timing in the repricing of certain assets and liabilities when market rates change and the changes in spreads between different market rates. The simulation analysis incorporates management s current assessment of the risk that pricing margins will change adversely over time due to competition or other factors.

Simulation analysis is only an estimate of the Company s interest rate risk exposure at a particular point in time. The Company continually reviews the potential effect that changes in interest rates could have on the repayment of rate sensitive assets and funding requirements of rate sensitive liabilities.

The tables below set forth an approximation of the Company s exposure as a percentage of estimated net interest income for the next twelve and twenty-four-month periods using interest income simulation. The simulation uses projected repricing of assets and liabilities at September 30, 2007 and December 31, 2006 on the basis of contractual maturities, anticipated repayments and scheduled rate adjustments. Prepayment rates can have a significant impact on interest income simulation. Because of the Company s large percentage of loans and mortgage-backed securities, rising or falling interest rates have a significant impact on the prepayment speeds of its earning assets that in turn affect the rate sensitivity position. The prepayment rates on investment securities are assumed to fluctuate between 8% and 12% in a flat interest rate environment, between 6% and 9% in an increasing interest rate environment and between 13% and 50% in a decreasing interest rate environment, depending on the type of security. Loan prepayment rates are assumed to fluctuate between 6% and 15% in a flat interest rate environment, between 5% and 15% in a rising rate environment and between 6% and 30% in a falling rate environment, depending on the type of loan. As evidenced by these assumptions, when interest rates rise, prepayments tend to slow and when interest rates fall, prepayments tend to increase. The Company s asset sensitivity would be reduced if prepayments slow and vice versa. Because prospective effects of hypothetical interest rate changes are based on a number of assumptions, these computations should not be relied upon as indicative of actual results. While the Company believes such assumptions to be reasonable, there can be no assurance that assumed prepayment rates will approximate actual future mortgage-backed securities, collateralized mortgage obligations and loan repayment activity. Further, the computations do not reflect any actions that management may undertake in response to changes in interest rates. Management periodically reviews its rate assumptions based on existing and projected economic conditions.

The Company s management generally simulates changes to net interest income using three different interest rate scenarios. The first scenario anticipates the maximum foreseeable increase in rates over the next twelve months; management assumes this to be 200 basis points at September 30, 2007 and December 31, 2006. The second scenario anticipates management s view of the most likely change in interest rates over the next twelve months; management s current assumption is a 100 basis point increase in rates. The third scenario anticipates the maximum foreseeable decrease in rates over the next twelve months; management s assumption is 200 basis points. The basis point change in each of the three scenarios is assumed to occur evenly over both the twelve and twenty-four months presented. As of September 30, 2007 and December 31, 2006, the Company s estimated exposure as a percentage of estimated net interest income for the twelve-month and twenty-four-month periods is as follows:

| | **Percent Change in Estimated Net Interest Income Over** | |
|---|---|---|
| **September 30, 2007:** | **12 Months** | **24 Months** |
| 200 basis point increase in rates | (5.29)% | (8.20)% |
| 100 basis point increase in rates | (1.45) | (1.92) |
| 200 basis point decrease in rates | 0.00 | (5.43) |

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| | Percent Change in Estimated Net Interest Income Over | |
|---|---|---|
| **December 31, 2006:** | **12 Months** | **24 Months** |
| 200 basis point increase in rates | (4.88)% | (9.69)% |
| 100 basis point increase in rates | (1.98) | (3.67) |
| 200 basis point decrease in rates | 0.50 | (0.87) |

As of September 30, 2007, based on the scenarios above, net interest income would be adversely affected in both the twelve and twenty-four-month periods if interest rates rose by 100 and 200 basis points and if interest rates decreased 200 basis points over the twenty-four-month period. Using net interest income for the quarter ended September 30, 2007, for each percentage point change in net interest income, the effect on the Company s annual net income would be $146,000, assuming a 34% income tax rate.

As of December 31, 2006, based on the scenarios above, net interest income would be adversely affected in both the twelve and twenty-four-month periods if interest rates rose by 100 and 200 basis points or if interest rates decreased 200 basis points over the twenty-four-month period and favorably impacted by a 200 basis point decrease in rates over the twelve-month period. Using net interest income for the quarter ended December 31, 2006, for each percentage point change in net interest income, the effect on the Company s annual net income would be $141,000, assuming a 34% income tax rate.

For both the twelve-month and twenty-four-month periods, the effect on net interest income has declined in the event of a sudden and sustained decrease in prevailing market interest rates of 200 basis points and if interest rates increased 200 basis points over the twelve-month period at September 30, 2007 compared to December 31, 2006. The effect on net interest income would be favorable in the event of a sudden and sustained increase in prevailing market rates of 100 basis points over both the twelve and twenty-four-month periods and if interest rates increased 200 basis points over a twenty-four-month period at September 30, 2007 compared to December 31, 2006. As a result, the Company s strategy is to better position the balance sheet for the anticipated economic slowdown by shortening the maturities on certificates of deposit, while lengthening the durations of borrowings.

## Item 4. Controls and Procedures.

The Company s management, including the Company s principal executive officer and principal financial officer, have evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act ). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (1) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (2) is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in the Company s internal control over financial reporting identified in connection with the evaluation required by Rule 13(a)-15(e) that occurred during the Company s last fiscal quarter that has materially affected or is reasonably likely to materially affect, the Company s internal control over financial reporting.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company is not involved in any legal proceedings. Periodically, there have been various claims and lawsuits against the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds a security interest, claims involving the making and servicing of real property loans and other issues incident to the Bank s business. Management believes that these legal proceedings would not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

### Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2006, which could materially and adversely affect the Company s business, financial condition or future results. The risks described in the Company s Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company s business, financial condition and/or operating results.

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

The following table provides certain information with regard to shares repurchased by the Company in the third quarter of 2007.

| Period | Total Number of Shares Purchased (1)(2) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1, 2007 through July 31, 2007 | 75,000 | $ 10.45 | 75,000 | 394,350 |
| August 1, 2007 through August 31, 2007 | 79,000 | 10.35 | 79,000 | 315,350 |
| September 1, 2007 through September 30, 2007 | 15,000 | 10.94 | 15,000 | 300,350 |
| **Total** | 169,000 | $ 10.45 | 169,000 | 300,350 |

(1) On November 23, 2005, the Company announced that the Board of Directors had approved a stock repurchase program authorizing the Company to repurchase up to 628,000 shares of the Company s common stock. The repurchase program will continue until it is completed or terminated by the Board of Directors.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Submission of Matters to a Vote of Security Holders.

None.

### Item 5. Other Information.

None.

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**Item 6. Exhibits.**

| | |
|---|---|
| 3.1 | Charter of SI Financial Group, Inc. (1) |
| 3.2 | Bylaws of SI Financial Group, Inc. (2) |
| 4.0 | Specimen Stock Certificate of SI Financial Group, Inc. (1) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.0 | 18 U.S.C. Section 1350 Certifications |

(1) Incorporated by reference into this document from the Exhibits filed with the Securities and Exchange Commission on the Registration Statement on Form S-1, and any amendments thereto, Registration No. 333-116381.

(2) Incorporated by reference into this document from the Exhibits filed with the Securities and Exchange Commission on Form 10-K filed on March 29, 2007.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SI FINANCIAL GROUP, INC.

Date: November 13, 2007

/s/ Rheo A. Brouillard
Rheo A. Brouillard
President and Chief Executive Officer
(principal executive officer)

Date: November 13, 2007

/s/ Brian J. Hull
Brian J. Hull
Executive Vice President, Treasurer and
Chief Financial Officer
(principal financial and accounting officer)