

ENCORE WIRE CORP
Form 10-K
February 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 000-20278

ENCORE WIRE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2274963
(I.R.S. Employer
Identification No.)

1329 Millwood Road
McKinney, Texas
(Address of principal executive offices)

75069
(Zip Code)

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

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

Title of each class
Common Stock, par value \$.01 per share

Name of each exchange on which registered
The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant computed by reference to the price at which the Common Stock was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$887,463,887 (Note: The aggregate market value of Common Stock held by the Company's directors, executive officers, immediate family members of such directors and executive officers, 10% or greater stockholders and other stockholders deemed to be affiliates was excluded from the computation of the foregoing amount. The characterization of such persons as "affiliates" should not be construed as an admission that any such person is an affiliate of the Registrant for any other purpose).

Number of shares of Common Stock outstanding as of February 25, 2016: 20,687,761

DOCUMENTS INCORPORATED BY REFERENCE

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

(1) Proxy statement for the 2016 annual meeting of stockholders – Part III

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PART I

Item 1. Business.

General

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

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

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

Strategy

Encore's strategy is to further expand its share of the building wire market primarily by emphasizing a high level of customer service and the addition of new products that complement its current product line, while maintaining and enhancing its low-cost production capabilities. Encore's low-cost production capability features an efficient plant design incorporating highly automated manufacturing equipment, an integrated production process and a highly motivated work force.

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

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

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

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

Incentivized Work Force. The Company has a stock option plan and a stock appreciation rights plan that enhance the motivation of its salaried manufacturing supervisors. The Company also has a comprehensive safety program that emphasizes employee participation. The Company provides a 401(k) retirement savings plan to all employees.

Products

Encore offers an electrical building wire product line that consists primarily of NM-B cable, UF-B cable, THHN/THWN-2 and other types of wire products, including metal-clad and armored cable. All of these products are manufactured with copper or aluminum as the conductor. The principal bases for differentiation among stock-keeping units ("SKUs") are product type, conductor type, diameter, insulation, color and packaging.

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

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

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

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SE Style Cable (Style U). Service Entrance cable is primarily utilized as an aboveground external service entrance cable from the meter enclosure to the service distribution equipment. SE-U style cable is composed of copper or aluminum multiple conductors, insulated with polyvinyl chloride (PVC) or a single layer of cross-linked polyethylene (XLPE) insulation, all jacketed in polyvinyl chloride (PVC).

SE Style Cable (Style R). Service Entrance cable is primarily utilized as an aboveground service entrance cable from the service disconnecting means to other remotely located electrical distribution equipment. SE-R style cable is composed of copper or aluminum multiple conductors, insulated with polyvinyl chloride (PVC) or a single layer of cross-linked polyethylene (XLPE) insulation, all jacketed in polyvinyl chloride (PVC).

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

XHHW-2. XHHW-2 cable is used primarily as branch circuit, feeder and service entrance conductors within commercial and industrial buildings and structures. It is composed of a copper or aluminum single conductor, either stranded or solid, and with a single layer of cross-linked polyethylene (XLPE) insulation.

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

USE-2 or RHH or RHW-2. USE-2, RHH or RHW-2 cable is intended for general purpose applications in direct burial, underground applications as USE-2 or as RHH or RHW-2 for either aboveground or underground applications in listed raceways for branch circuit, feeder and service entrance conductors. It is composed of a copper or aluminum single conductor, either stranded or solid, and with a single layer of cross-linked polyethylene (XLPE) insulation suitable for wet locations.

Tray Cable (Power and/or Control) - Tray Cable is primarily used as branch circuit or feeders for power, lighting, control, and signal circuits for direct installations in raceways, outdoor locations where supported by a messenger wire, in cable trays and direct burial in underground installations where evaluated for the specific condition of use. It is composed of copper or aluminum multiple conductors, insulated with polyvinyl chloride (PVC) or cross-linked polyethylene (XLPE) with either insulated or bare equipment grounding conductor, all jacketed in rugged polyvinyl chloride (PVC).

Metal-Clad Cable. Metal-clad cable is used primarily as branch circuit, feeder, and service conductors, primarily in multi-family dwellings, commercial and industrial buildings. It is composed of multiple conductors, either stranded or solid, and insulated with polyvinyl chloride (PVC), which are further coated with nylon or with a single layer of cross-linked polyethylene (XLPE) insulation and then fully encased in a flexible aluminum or steel "armored" protective sheathing.

Armored Cable. Armored cable is used primarily as branch circuit and feeders, primarily in commercial and industrial buildings. It is composed of multiple conductors, either stranded or solid, and insulated with polyvinyl chloride (PVC), which are further coated with nylon and then fully encased in a flexible aluminum or steel "armored" protective sheathing.

Photovoltaic Single-Conductor Cable. Photovoltaic (PV) style conductors and/or cables are primarily intended for use as photovoltaic (PV) direct-current output circuit and source circuits between the PV arrays and combiner boxes. It is composed of a copper or aluminum single conductor, either stranded or solid, and with a single layer of cross-linked polyethylene (XLPE) insulation.

URD or UDC Cable. Underground Residential Distribution Cable (URD) or Underground Distribution Cable (UDC) is primarily for underground secondary distribution, as service entrance conductors underground, and as service laterals. It may be directly buried in earth or installed in an electrical duct system in both wet and dry locations. It is composed of a copper or aluminum single conductor, either stranded or solid, and with a single layer of cross-linked polyethylene (XLPE) insulation.

Mobile Home Feeder Cable. Mobile Home Feeder Cable is primarily for underground feeders to mobile homes as defined in Article 550 of the National Electrical Code®. It may be directly buried in earth or in a listed raceway system in both wet and dry locations. It is composed of a copper or aluminum single conductor, either stranded or solid, and with a single layer of cross-linked polyethylene (XLPE) insulation.

Overhead Service Drop. Overhead Service Drop conductors are primarily for overhead secondary distribution, as service entrance conductors overhead, and as service drop conductors from utility transformers to premise wiring systems. It is composed of

electrical grade 1350 series aluminum alloy conductors, typically stranded, and with a single layer of cross-linked polyethylene (XLPE) insulation.

Manufacturing

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

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

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

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

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

PVC Compounding. PVC compounding is the process of mixing the various raw materials that are required to produce the PVC necessary to meet specifications of Underwriters Laboratories, Inc. ("UL") for the insulation and jacket requirements for the wire that is manufactured.

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

Cabling. Cabling is the process of twisting together two or more insulated conductors to form a cable.

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

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

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

Customers

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

Encore believes that the speed and completeness with which it fills customers' orders is crucial to its ability to expand the market share for its products. The Company also believes that, for a variety of reasons, many customers strive to maintain lean inventories. Because of this trend, the Company seeks to maintain sufficient inventories to satisfy customers' prompt delivery requirements.

Marketing and Distribution

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

Encore maintains the majority of its finished product inventory at its plant in McKinney, Texas. In order to provide flexibility in handling customer requests for immediate delivery, additional product inventories are maintained at warehouses owned and

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operated by independent manufacturers' representatives located in Chattanooga, Tennessee; Norcross, Georgia; Cincinnati, Ohio; Canton, Michigan; Edison, New Jersey; Louisville, Kentucky; Greensboro, North Carolina; Pittsburgh, Pennsylvania; Santa Fe Springs, California; Hayward, California; and Lakeland, Florida. Some of these manufacturers' representatives, as well as the Company's other manufacturers' representatives, maintain offices without warehouses in numerous locations throughout the United States.

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

The Company invoices its customers directly for products purchased and, if an order has been obtained through a manufacturer's representative, pays the representative a commission based on pre-established rates. The Company determines customer credit limits. The Company recorded no bad debt charges in 2015, 2014, and 2013. The manufacturers' representatives have no discretion to determine prices charged for the Company's products, and all sales are subject to Company approval. Encore sells all of its products with a one-year replacement warranty. Warranty expenses have historically been nominal.

Employees

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

As of December 31, 2015, Encore had 1,331 employees, 1,149 of whom were paid hourly wages and were primarily engaged in the operation and maintenance of the Company's manufacturing and warehouse facility. The Company's remaining employees were executive, supervisory, administrative, sales and clerical personnel. The Company considers its relations with its employees to be good. The Company has no collective bargaining agreements with any of its employees.

Raw Materials

The principal raw materials used by Encore in manufacturing its products are copper cathode, copper scrap, PVC thermoplastic compounds, XLPE compounds, aluminum, steel, paper and nylon, all of which are readily available from a number of suppliers. Copper is the principal raw material used by the Company in manufacturing its products, constituting 80.7% of the dollar value of all raw materials used by the Company during 2015. Copper requirements are purchased primarily from miners and commodity brokers at prices determined each month primarily based on the average daily COMEX closing prices for copper for that month, plus a negotiated premium. The Company also purchases raw materials necessary to manufacture various PVC thermoplastic compounds. These raw materials include PVC resin, clay and plasticizer.

The Company produces copper rod from purchased copper cathode and copper scrap in its own rod fabrication facility. The Company reprocesses copper scrap generated by its operations as well as copper scrap purchased from others. In 2015, the Company's copper rod fabrication facility manufactured the majority of the Company's copper rod requirements. The Company purchases aluminum rod from various suppliers for aluminum wire production.

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

Competition

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

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

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

percentage of the cost of goods sold for these products and freight costs are relatively high to bring wire to the United States from overseas.

Compliance with Environmental Regulations

The Company is subject to federal, state and local environmental protection laws and regulations governing the Company's operations and the use, handling, disposal and remediation of hazardous substances currently or formerly used by the Company. Management believes the Company is in compliance with all such rules including permitting and reporting requirements. Historically, compliance with such laws and regulations has not had a material impact on the capital expenditures, earnings and competitive position of the Company.

Research and Development Activities

The Company classifies research and development activities as a component of production overhead. Research and development costs were approximately \$1.8 million, \$1.7 million and \$1.5 million for the years ended December 31, 2015, 2014 and 2013, respectively. Research and development costs attributable to customer-sponsored research activities performed by the Company were insignificant.

Intellectual Property Matters

From time to time, the Company files patent applications with the United States Patent and Trademark Office. The Company currently owns several patents and pending patent applications. The Company also owns several registered trademarks and pending trademark applications with the U.S. Patent and Trademark Office. The current registrations for the marks will expire on various dates between 2016 and 2023, but each registration can be renewed indefinitely as long as the respective mark continues to be used in commerce and the requisite proof of continued use or renewal application, as applicable, is filed. These trademarks provide source identification for the goods manufactured and sold by the Company and allow the Company to achieve brand recognition within the industry.

Internet Address/SEC Filings

The Company's Internet address is <http://www.encorewire.com>. Under the "Investors Info" section of our website, the Company provides a link to our electronic Securities and Exchange Commission ("SEC") filings, including our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, director and officer beneficial ownership reports filed pursuant to Section 16 of the Securities Exchange Act of 1934, as amended, and any amendments to these reports. All such reports are available free of charge and are available as soon as reasonably practicable after the Company files such material with, or furnishes it to, the SEC.

The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

Item 1A. Risk Factors.

The following are risk factors that could affect the Company's business, financial results and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. Before purchasing the Company's stock, an investor should know that making such an investment involves some risks, including the risks described below. If any of the risks mentioned below or other unknown risks actually occur, the Company's business, financial condition or results of operations could be negatively affected. In that case, the trading price of its stock could fluctuate significantly.

Product Pricing and Volatility of Copper Market

Price competition for copper electrical wire and cable is intense, and the Company sells its products in accordance with prevailing market prices. Wire prices can, and frequently do, change on a daily basis. This competitive pricing market for wire does not always mirror changes in copper prices, making margins highly volatile. Copper, a commodity product, is the principal raw material used in the Company's manufacturing operations. Copper accounted for approximately 72.1%, 74.7% and 77.6% of the costs of goods sold by the Company during 2015, 2014 and 2013, respectively, and the Company expects that copper will continue to account for a significant portion of these costs in the future. The price of copper fluctuates depending on general economic conditions and in relation to supply and

demand and other factors, and it causes monthly variations in the cost of copper purchased by the Company. The SEC allows shares of physically backed copper exchange traded funds (“ETFs”) to be listed and publicly

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traded. Such funds and other copper ETFs like it hold copper cathode as collateral against their shares. The acquisition of copper cathode by Copper ETFs may materially decrease or interrupt the availability of copper for immediate delivery in the United States, which could materially increase the Company's cost of copper. In addition to rising copper prices and potential supply shortages, we believe that ETFs and similar copper-backed derivative products could lead to increased copper price volatility. The Company cannot predict future copper prices or the effect of fluctuations in the costs of copper on the Company's future operating results. Consequently, fluctuations in copper prices caused by market forces can significantly affect the Company's financial results. With the volatility of both raw material prices and wire prices in the Company's end market, hedging raw materials can be risky. Historically, the Company has not engaged in hedging strategies for raw material purchases.

Operating Results May Fluctuate

Encore's results of operations may fluctuate as a result of a number of factors, including fluctuation in the demand for and shipments of the Company's products. Therefore, comparisons of results of operations have been and will be impacted by the volume of such orders and shipments. In addition, the Company's operating results could be adversely affected by the following factors, among others, such as variations in the mix of product sales, price changes in response to competitive factors, increases in raw material costs and other significant costs, the loss of key manufacturer's representatives who sell the Company's product line, increases in utility costs (particularly electricity and natural gas) and various types of insurance coverage and interruptions in plant operations resulting from the interruption of raw material supplies and other factors.

Reliance on Senior Management

Encore's future operating results depend, in part, upon the continued service of its senior management, Mr. Daniel L. Jones, the Chairman, President and Chief Executive Officer, and Mr. Frank J. Bilban, the Company's Vice President and Chief Financial Officer (neither of whom are bound by an employment agreement). The Company's future success will depend upon its continuing ability to attract and retain highly qualified managerial and technical personnel. Competition for such personnel is intense, and there can be no assurance that the Company will retain its key managerial and technical employees or that it will be successful in attracting, assimilating or retaining other highly qualified personnel in the future.

Industry Conditions and Cyclicalities

The residential, commercial and industrial construction industry, which is the end user of the Company's products, is cyclical and is affected by a number of factors including the general condition of the economy, market demand and changes in interest rates, among other factors. Industry sales of electrical wire and cable products tend to parallel general construction activity, which includes remodeling. Housing construction activity in the United States declined significantly in 2006 and continued its downward trend through 2010, improving slightly in 2011 and 2012 and then building upward momentum in 2013 through 2015. Nationally, commercial construction had been strong through 2007, but it slowed significantly in 2008 and continued downward through 2012, before turning around and improving in 2013 through 2015.

The somewhat sluggish construction economy in the United States and the overhang of excess housing and commercial and industrial buildings may have a negative impact on the construction industry for some time to come. Deterioration in the financial condition of the Company's customers due to industry and economic conditions may result in reduced sales, an inability to collect receivables and payment delays or losses due to a customer's bankruptcy or insolvency. Although the Company's bad debt experience has been low in recent years, the Company's inability to collect receivables may increase the amounts the Company must expense against its bad debt reserve, decreasing the Company's profitability. A downturn in the residential, commercial or industrial construction industries and general economic conditions as a whole may have a material adverse effect on the Company.

Environmental Liabilities

The Company is subject to federal, state and local environmental protection laws and regulations governing the Company's operations and the use, handling, disposal and remediation of hazardous substances currently or formerly used by the Company. A risk of environmental liability is inherent in the Company's current manufacturing activities in the event of a release or discharge of a hazardous substance generated by the Company. Under certain environmental laws, the Company could be held jointly and severally responsible for the remediation of any

hazardous substance contamination at the Company's facilities and at third party waste disposal sites and could also be held liable for any consequences arising out of human exposure to such substances or other environmental damage. There can be no assurance that the costs of complying with environmental, health and safety laws and requirements in the Company's current operations or the liabilities arising from past releases of, or exposure to, hazardous substances, will not result in future expenditures by the Company that could materially and adversely affect the Company's financial results, cash flow or financial condition.

Competition

The electrical wire and cable industry is highly competitive. The Company competes with several manufacturers of wire and cable products that have substantially greater resources than the Company. Some of these competitors are owned and operated by large, diversified companies. The principal elements of competition in the wire and cable industry are, in the opinion of the Company, pricing, product availability and quality and, in some instances, breadth of product line. The Company believes that it is competitive with respect to all of these factors. While the number of firms producing wire and cable has declined in the past, there can be no assurance that new competitors will not emerge or that existing producers will not employ or improve upon the Company's manufacturing and marketing strategy.

Patent and Intellectual Property Disputes

Disagreements about patents and intellectual property rights occur in the wire and cable industry. The unfavorable resolution of a patent or intellectual property dispute could preclude the Company from manufacturing and selling certain products or could require the Company to pay a royalty on the sale of certain products. Patent and intellectual property disputes could also result in substantial legal fees and other costs.

Common Stock Price May Fluctuate

Future announcements concerning Encore or its competitors or customers, quarterly variations in operating results, announcements of technological innovations, the introduction of new products or changes in product pricing policies by the Company or its competitors, developments regarding proprietary rights, changes in earnings estimates by analysts or reports regarding the Company or its industry in the financial press or investment advisory publications, among other factors, could cause the market price of the Common Stock to fluctuate substantially. These fluctuations, as well as general economic, political and market conditions, such as recessions, world events, military conflicts or market or market-sector declines, may materially and adversely affect the market price of the Common Stock.

Beneficial Ownership of the Company's Common Stock by a Small Number of Stockholders

A small number of significant stockholders beneficially own greater than 35% of the Company's outstanding common stock. Depending on stockholder turnout for a stockholder vote, these stockholders, acting together, could be able to control the election of directors and certain matters requiring majority approval by the Company's stockholders. The interests of this group of stockholders may not always coincide with the Company's interests or the interests of other stockholders.

In the future, these stockholders could sell large amounts of common stock over relatively short periods of time. The Company cannot predict if, when or in what amounts stockholders may sell any of their shares. Sales of substantial amounts of the Company's common stock in the public market by existing stockholders or the perception that these sales could occur, may adversely affect the market price of our common stock by creating a public perception of difficulties or problems with the Company's business.

Future Sales of Common Stock Could Affect the Price of the Common Stock

No prediction can be made as to the effect, if any, that future sales of shares or the availability of shares for sale will have on the market price of the Common Stock prevailing from time to time. Sales of substantial amounts of Common Stock, or the perception that such sales might occur, could adversely affect prevailing market prices of the Common Stock.

Cybersecurity Breaches and other Disruptions to our Information Technology Systems

The efficient operation of our business is dependent on our information technology systems to process, transmit and store sensitive electronic data, including employee, distributor and customer records, and to manage and support our business operations and manufacturing processes. The secure maintenance of this information is critical to our operations. Despite our security measures, our information technology system may be vulnerable to attacks by hackers or breaches due to errors or malfeasance by employees and others who have access to our system, or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer viruses, telecommunication or utility failures or natural disasters. Any such event could compromise our information technology system, expose our customers, distributors and employees to risks of misuse of confidential information, impair our ability to effectively and timely operate our business and manufacturing processes, and cause other disruptions, which could result in legal claims or proceedings, disrupt our operations and the services we provide to

customers, damage our reputation, and cause a loss of confidence in our products and services, any of which could adversely affect our results of operations and competitive position.

Regulations related to conflict-free minerals may force us to incur additional expenses.

In August 2012, the SEC adopted disclosure requirements related to certain minerals sourced from the Democratic Republic of Congo or adjoining countries, as required by Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). The SEC rules implementing Section 1502 of the Dodd-Frank Act require us to perform due diligence, and report whether “conflict minerals,” which are defined as tin, tantalum, tungsten and gold, necessary to the functionality of a product we purchase originated from the Democratic Republic of Congo or an adjoining country. Since 2014, we have been required to file with the SEC on an annual basis a specialized disclosure report on Form SD regarding such matters. As our supply chain is complex, we may incur significant costs to determine the source and custody of conflict minerals that are used in the manufacture of our products in order to comply with these regulatory requirements in the future. We may also face reputational challenges if we are unable to verify the origins for all conflict minerals used in our products, or if we are unable to conclude that our products are “conflict free.” Over time, conflict minerals reporting requirements may affect the sourcing, price and availability of our products, and may affect the availability and price of conflict minerals that are certified as conflict free. Accordingly, we may incur significant costs as a consequence of regulations related to conflict-free minerals, which may adversely affect our business, financial condition or results of operations.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Encore maintains its corporate office and manufacturing plants in McKinney, Texas, approximately 35 miles north of Dallas. The Company’s facilities are located on a combined site of approximately 430 acres and consist of buildings containing approximately 1.9 million square feet of floor space. The plant and equipment are owned by the Company and are not mortgaged to secure any of the Company’s existing indebtedness. Encore believes that its plant and equipment are suited to its present needs, comply with applicable federal, state and local laws and regulations, and are properly maintained and adequately insured.

Item 3. Legal Proceedings.

A description of the Company’s legal proceedings is contained in Note 9 to the Company’s consolidated financial statements included in Item 8 to this report and incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

EXECUTIVE OFFICERS OF THE COMPANY

Information regarding Encore's executive officers including their respective ages as of February 26, 2016, is set forth below:

Name	Age	Position with Company
Daniel L. Jones	52	Chairman of the Board of Directors, President and Chief Executive Officer
Frank J. Bilban	59	Vice President – Finance, Treasurer, Secretary, and Chief Financial Officer

Mr. Jones has held the office of President and Chief Executive Officer of the Company since February 2006. He performed the duties of the Chief Executive Officer in an interim capacity from May 2005 to February 2006. From May 1998 until February 2005, Mr. Jones was President and Chief Operating Officer of the Company. He previously held the positions of Chief Operating Officer from October 1997 until May 1998, Executive Vice President from May 1997 to October 1997, Vice President-Sales and Marketing from 1992 to May 1997, after serving as Director of Sales since joining the Company in November 1989. He has also served as a member of the Board of Directors since May 1992, and was named Chairman of the Board in 2014.

Mr. Bilban has served as Vice President-Finance, Treasurer, Secretary and Chief Financial Officer of Encore since June 2000. From 1998 until joining the Company in June 2000, Mr. Bilban was Executive Vice President and Chief Financial Officer of Alpha Holdings, Inc., a plastics manufacturing conglomerate. From 1996 until 1998, Mr. Bilban was Vice President and Chief Financial Officer of Wedge Dia-Log Inc., an oil field services company.

All executive officers are elected annually by the Board of Directors to serve until the next annual meeting of the Board or until their respective successors are chosen and qualified.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock is traded and quoted on the NASDAQ Stock Market's Global Select Market under the symbol "WIRE." The following table sets forth the high and low intraday sales prices per share for the Common Stock as reported by NASDAQ for the periods indicated.

	High	Low
2015		
First Quarter	\$38.10	\$29.36
Second Quarter	48.50	37.05
Third Quarter	46.32	30.23
Fourth Quarter	44.95	31.89
2014		
First Quarter	\$57.99	\$46.03
Second Quarter	52.70	45.06
Third Quarter	51.30	36.91
Fourth Quarter	40.92	33.61

As of February 25, 2016, there were 36 holders of record of the Company's Common Stock.

The Company paid its first cash dividend in January 2007 and has continued paying quarterly dividends of two cents per share through 2015. Aside from periodic dividends, management intends to retain the majority of future earnings for the operation and expansion of the Company's business.

Issuer Purchases of Equity Securities

On November 10, 2006, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an authorized amount of shares of its common stock on the open market or through privately negotiated transactions at prices determined by the President of the Company during the term of the program. The Company's Board of Directors has authorized several increases and annual extensions of this stock repurchase program. As of December 31, 2015, the repurchase authorization had 1,132,946 shares remaining, and the stock repurchase program has been extended through March 31, 2017. The Company repurchased 92,804 shares of its stock in the third quarter of 2015 in the open market, its only purchases in 2015. The Company did not repurchase any shares of its stock in 2014. The Company also has a broker agreement to repurchase stock in the open market at certain trigger points pursuant to a Rule 10b5-1 plan announced on November 28, 2007.

Equity Compensation Plan Information

The following table provides information about the Company's equity compensation plans as of December 31, 2015.

PLAN CATEGORY	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	320,887	\$30.25	250,300
Equity compensation plans not approved by security holders	—	—	—
TOTAL	320,887	\$30.25	250,300

Performance Graph

The following graph is not “soliciting material,” is not deemed filed with the SEC, and is not to be incorporated by reference into any of the Company’s filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, respectively.

The graph below sets forth the cumulative total stockholder return, which assumes reinvestment of dividends, of a \$100 investment in the Company’s Common Stock, the Company’s self-determined peer group for the year ended December 31, 2015, and the Russell 2000 Index.

Symbol	Total Return For:	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012
«	Encore Wire Corporation	100.00	97.21	96.81	82.26	103.62	119.03	107.29
n	Russell 2000 Index	100.00	107.94	106.21	82.98	95.82	107.74	104.00
	Peer Group	100.00	113.06	108.51	68.42	80.87	93.06	82.46
Symbol	Total Return For:	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014
«	Encore Wire Corporation	117.31	121.61	140.59	136.98	158.52	218.04	195.15
n	Russell 2000 Index	109.46	111.49	125.31	129.17	142.36	154.78	156.51
	Peer Group	92.26	104.60	122.70	112.05	132.57	138.11	131.28
Symbol	Total Return For:	6/30/2014	9/30/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015
«	Encore Wire Corporation	197.36	149.33	150.45	152.75	178.60	131.88	149.73
n	Russell 2000 Index	159.71	147.96	162.35	169.36	170.07	149.80	155.18
	Peer Group	143.09	108.56	128.75	152.21	139.84	81.53	85.54

Notes

(1) Data presented in the performance graph is complete through December 31, 2015.

(2) The Peer Group is self-determined and consists of the following companies: General Cable Corporation and Belden, Inc.

(3) The peer group index uses only such peer group's performance and excludes the performance of the Company. The peer group index uses beginning of period market capitalization weighting.

(4) Each data line represents quarterly index levels derived from compounded daily returns that include all dividends.

(5) The index level for all data lines was set to \$100.00 on December 31, 2010.

Item 6. Selected Consolidated Financial Data.

The following financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data." The table below presents, as of and for the dates indicated, selected historical financial information for the Company.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
Statement of Income Data:					
Net sales	\$1,017,622	\$1,166,979	\$1,158,252	\$1,072,348	\$1,180,474
Cost of goods sold	880,900	1,042,002	1,023,180	982,021	1,039,619
Gross profit	136,722	124,977	135,072	90,327	140,855
Selling, general and administrative expenses	64,493	68,876	64,453	60,981	64,577
Operating income	72,229	56,101	70,619	29,346	76,278
Interest and other (income) expense	(405)	(341)	(329)	(343)	(239)
Interest expense	250	285	265	313	322
Income before income taxes	72,384	56,157	70,683	29,376	76,195
Provision for income taxes	24,779	19,034	23,773	9,565	26,064
Net income	\$47,605	\$37,123	\$46,910	\$19,811	\$50,131
Net income per common and common equivalent shares – basic	\$2.30	\$1.79	\$2.27	\$0.91	\$2.15
Weighted average common and common equivalent shares – basic	20,713	20,714	20,676	21,680	23,300
Net income per common and common equivalent shares – diluted	\$2.29	\$1.78	\$2.26	\$0.91	\$2.14
Weighted average common and common equivalent shares – diluted	20,787	20,821	20,764	21,732	23,410

	As of December 31,				
	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
Balance Sheet Data:					
Working capital	\$307,440	\$285,977	\$282,148	\$261,493	\$334,484
Total assets	628,116	572,751	525,826	472,467	516,146
Long-term debt, net of current portion	—	—	—	—	—
Stockholders' equity	538,639	493,187	456,581	410,164	457,743
Annual dividends paid	1,657	1,657	1,654	1,763	1,863
Annual dividends paid per common share	0.08	0.08	0.08	0.08	0.08

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

The following management's discussion and analysis is intended to provide a better understanding of key factors, drivers and risks regarding the Company and the building wire industry.

Executive Overview

Encore Wire sells a commodity product in a highly competitive market. Management strongly believes that the historical strength of the Company's growth and earnings is attributable to the following main factors:

- industry leading order fill rates and responsive customer service
- product innovations and product line expansions based on listening to and understanding customer needs and market trends
- low cost manufacturing operations, resulting from a state-of-the-art manufacturing complex
- low distribution and freight costs due in large part to the "one campus" business model
- a focused management team leading an incentivized work force
- low general and administrative overhead costs, and
- a team of experienced independent manufacturers' representatives with strong customer relationships across the United States.

These factors, and others, have allowed Encore Wire to grow from a startup in 1989 to what management believes is one of the largest electric building wire companies in the United States of America. Encore has built a loyal following of customers throughout the United States. These customers have developed a brand preference for Encore Wire in a commodity product line due to the reasons noted above, among others. The Company prides itself on striving to grow sales by expanding its product offerings where profit margins are acceptable. Senior management monitors gross margins daily, frequently extending down to the individual order level. Management strongly believes that this "hands-on" focused approach to the building wire business has been an important factor in the Company's success, and will lead to continued success.

The construction and remodeling industries drive demand for building wire. Housing construction activity in the United States declined significantly in 2006 and continued its downward trend through 2010, improving slightly in 2011 and 2012 and then building upward momentum in 2013 through 2015. Nationally, commercial construction had been strong through 2007, but it slowed significantly in 2008 and continued downward through 2012, before turning around and improving in 2013 through 2015. The Company's unit sales volume, as measured in pounds of copper wire sold, declined 15.6% in 2009 versus 2008 and declined another 3.8% in 2010 versus 2009. In 2011, the Company's unit sales volume increased 6.2% compared to 2010. In 2012, copper unit sales declined 1.3% versus 2011. Total unit sales, including pounds of aluminum wire sold, increased 2.3% in 2012 versus 2011, as the Company continued to expand its building wire product line as discussed throughout this report. Total unit sales, including pounds of aluminum wire sold, increased 14.9% in 2013 versus 2012. In 2013, copper unit sales increased 9.5% versus 2012, while aluminum unit sales increased 116.8% versus 2012. 2013 was the first full year of sales and production from the Company's new aluminum wire plant. The Company believes that the expansion into building wire product offerings with aluminum conductors helped the increase in copper unit sales in 2013, as customers prefer to "one stop shop" and order from full line

producers. The Company believes that the overall decline of unit volumes sold since 2006 is primarily the result of the slowdown in construction throughout the United States. The Company also believes that the reduced percentage decline in the Company's unit sales volume in 2010 and the increase in 2011 was caused, in large part, by the exit of a former competitor from the industry in the first quarter of 2010. In 2015, unit sales were down 1.5% in copper wire and 0.5% in aluminum wire versus 2014. It should be noted, however, that 2015 had a slow start, due in part to rough winter and spring weather. Unit sales volumes were down 9.4% for copper and 2.7% for aluminum through the first five months of 2015 versus the first five months of 2014. However, unit sales volumes were up 4.4% for copper and 1.0% for aluminum in the last seven months of 2015 versus the same period in 2014. According to various industry and national economic forecasts, the future is unclear for the next few years. Data on remodeling is not as readily available; however, remodeling activity historically trends up when new construction slows down.

General

The Company's operating results are driven by several key factors, including the volume of product produced and shipped, the cost of copper and other raw materials, the competitive pricing environment in the wire industry and the resulting influence on gross margins and the efficiency with which the Company's plants operate during the period, among others. Price competition for electrical wire and cable is intense, and the Company sells its products in accordance with prevailing market prices. Copper, a commodity product, is the principal raw material used by the Company in manufacturing its products. Copper accounted for approximately 72.1%, 74.7%, and 77.6% of the Company's cost of goods sold during 2015, 2014 and 2013, respectively. The price of copper fluctuates, depending on general economic conditions and in relation to supply and demand and other factors, which causes monthly variations in the cost of copper purchased by the Company. Additionally, the SEC allows shares of physically backed copper exchange traded funds ("ETFs") to be listed and publicly traded. Such funds and other copper ETFs like it hold copper cathode as collateral against their shares. The acquisition of copper cathode by Copper ETFs may materially decrease or interrupt the availability of copper for immediate delivery in the United States, which could materially increase the Company's cost of copper. In addition to rising copper prices and potential supply shortages, we believe that ETFs and similar copper-backed derivative products could lead to increased price volatility for copper. The Company cannot predict copper prices in the future or the effect of fluctuations in the cost of copper on the Company's future operating results. Wire prices can, and frequently do change on a daily basis. This competitive pricing market for wire does not always mirror changes in copper prices, making margins highly volatile. With the Company's expansion into aluminum conductors in some of its building wire products, aluminum will slowly grow its percentage share of the raw materials cost for the Company. The Company built a plant to expand the production of aluminum building wire beginning in late 2011. The plant was fully operational by mid-year 2013. In 2012, aluminum wire sales constituted 3.6% of net sales, growing to 6.9% of net sales in 2013, 8.9% in 2014, and 9.9% in 2015. This growth of aluminum sales to over \$103.4 million in 2014 provided the impetus for the Company to construct a 250,000 square foot expansion to the aluminum plant to allow for the continued growth of this business. The construction of the building expansion was substantially completed in the fourth quarter of 2014. Machinery and equipment was installed during 2015. Historically, the cost of aluminum has been much lower than copper and less volatile. With the volatility of both raw material prices and wire prices in the Company's end market, hedging raw materials can be risky. Historically, the Company has not engaged in hedging strategies for raw material purchases. The tables below highlight the range of closing prices of copper on the Comex exchange for the periods shown.

COMEX COPPER CLOSING PRICE 2015

	October 2015	November 2015	December 2015	Quarter Ended Dec. 31, 2015	Year-to-Date Dec. 31, 2015
High	\$2.43	\$2.33	\$2.14	\$2.43	\$2.95
Low	2.31	2.02	2.03	2.02	2.02
Average	2.37	2.16	2.08	2.20	2.51

COMEX COPPER CLOSING PRICE 2014

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	October 2014	November 2014	December 2014	Quarter Ended Dec. 31, 2014	Year-to-Date Dec. 31, 2014
High	\$3.11	\$3.08	\$2.95	\$3.11	\$3.43
Low	2.98	2.86	2.84	2.84	2.84
Average	3.04	3.02	2.90	2.98	3.12

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COMEX COPPER CLOSING PRICE 2013

	October 2013	November 2013	December 2013	Quarter Ended Dec. 31, 2013	Year-to-Date Dec. 31, 2013
High	\$3.33	\$3.29	\$3.47	\$3.47	\$3.78
Low	3.22	3.15	3.20	3.15	3.03
Average	3.28	3.22	3.34	3.28	3.34

Results of Operations

The following table presents certain items of income and expense as a percentage of net sales for the periods indicated.

	Year Ended December 31,					
	2015	%	2014	%	2013	%
Net sales	100.0	%	100.0	%	100.0	%
Cost of goods sold:						
Copper	62.4	%	66.7	%	68.6	%
Other raw materials	14.9	%	13.2	%	11.5	%
Depreciation	1.4	%	1.2	%	1.1	%
Labor and overhead	11.0	%	9.0	%	8.1	%
LIFO adjustment	(3.1))%	(0.8))%	(1.0))%
Lower cost or market adjustment	—	%	—	%	—	%
	86.6	%	89.3	%	88.3	%
Gross profit	13.4	%	10.7	%	11.7	%
Selling, general and administrative expenses	6.3	%	5.9	%	5.6	%
Operating income	7.1	%	4.8	%	6.1	%
Interest and other (income) expense	—	%	—	%	—	%
Income before income taxes	7.1	%	4.8	%	6.1	%
Provision for income taxes	2.4	%	1.6	%	2.0	%
Net income	4.7	%	3.2	%	4.1	%

The following discussion and analysis relates to factors that have affected the operating results of the Company for the years ended December 31, 2015, 2014 and 2013. Reference should also be made to the Consolidated Financial Statements and the related notes included under “Item 8. Financial Statements and Supplementary Data” of this Annual Report.

Net sales were \$1.018 billion in 2015 compared to \$1.167 billion in 2014 and \$1.158 billion in 2013. The 12.8% decrease in net sales in 2015 versus 2014 is the result of a 13.8% decrease in copper wire sales and a 2.8% decrease in aluminum wire sales. Sales dollars were driven lower primarily by decreases in average selling prices of 12.5% and 2.3% of copper and aluminum wire, respectively, and also slightly by a 1.5% decrease in copper wire pounds shipped and a 0.5% decrease in aluminum wire pounds shipped. Average selling prices for wire sold were driven lower by the fact that the average price of a pound of copper purchased decreased 19.3% in 2015 versus 2014, while aluminum purchase prices decreased 12.3% during the same time period. Aluminum wire constituted 9.9% of total net sales in 2015, compared to 8.9% of net sales in 2014.

In the fourth quarter of 2015, net sales decreased 12.1% versus the fourth quarter of 2014. The decrease in net sales was due to the 13.1% decrease in copper net sales and a 2.4% decrease in aluminum net sales, driven by the decrease in purchase prices of copper of 25.3% and aluminum of 27.2%. These lower prices were offset somewhat by unit sales volume increases of 5.1% in copper wire and 5.0% in aluminum wire in the fourth quarter of 2015 versus the fourth quarter of 2014. Aluminum net sales comprised 10.2% of net sales in the fourth quarter of 2015, compared to 9.2% in

the fourth quarter of 2014.

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On a sequential quarter comparison, net sales in the fourth quarter of 2015 decreased 4.5% versus the third quarter of 2015, due primarily to a 7.5% decrease in average copper wire selling prices, offset somewhat by a 3.4% increase in copper wire unit sales. Average selling prices were driven lower by a 7.6% decrease in the cost of copper purchased. Margins in the fourth quarter of 2015 were down versus those of the third quarter of 2015, producing \$11.0 million of net income in the fourth quarter of 2015 versus \$14.5 million in the third quarter of 2015.

Comparing the full year of 2015 to 2014, the average sales price of wire that contained a pound of copper decreased less than the average price of a pound of copper purchased during the period. Therefore, margins increased as the spread between the price of wire sold and the cost of raw copper purchased increased by 5.2%, due primarily to somewhat improved industry pricing discipline. Aluminum wire margins also increased from 2014 to 2015, with the spread between the price of wire sold and the cost of raw aluminum purchased increasing by 4.0%. Fluctuations in sales prices are primarily a result of changing copper and other raw material prices and product price competition. The 0.8% increase in net sales in 2014 versus 2013 is primarily the result of a 1.4% decrease in copper wire sales driven by a 3.6% increase in copper wire pounds shipped and a 29.7% increase in aluminum wire sales driven by a 34.4% increase in aluminum wire pounds shipped, offset by decreases in average selling prices of 4.8% and 3.5% of copper and aluminum wire, respectively. Aluminum wire constituted 8.9% of total net sales in 2014, compared to 6.9% of net sales in 2013. The average price of a pound of copper purchased decreased 5.7% in 2014 versus 2013, while aluminum purchase prices increased 4.7% during the same time period. In the fourth quarter of 2014, net sales decreased 2.8% versus the fourth quarter of 2013. The decrease in net sales was due largely to the 4.1% decrease in copper net sales offset somewhat by a 12.3% increase in aluminum net sales, driven by an aluminum unit volume increase of 13.0% in the fourth quarter of 2014 versus the fourth quarter of 2013. Aluminum net sales comprised 9.2% of net sales in the fourth quarter of 2014, compared to 8.0% in the fourth quarter of 2013. Copper unit volume was up 2.4% in the fourth quarter of 2014 compared to the fourth quarter of 2013 while the average selling price per copper pound sold was down 6.3% between the same periods. On a sequential quarter comparison, net sales in the fourth quarter of 2014 decreased 4.0% versus the third quarter of 2014, due primarily to a 1.4% increase in copper wire unit sales more than offset by a 5.1% decrease in average selling prices. Margins in the fourth quarter of 2014 were down versus those of the third quarter of 2014, producing \$5.1 million of net income in the fourth quarter of 2014 versus \$11.1 million in the third quarter of 2014.

Comparing the full year of 2014 to 2013, the average sales price of wire that contained a pound of copper decreased more than the average price of a pound of copper purchased during the period. Therefore, margins contracted as the spread between the price of wire sold and the cost of raw copper purchased decreased by 2.5%, due primarily to slightly decreased industry pricing discipline. Aluminum wire margins also decreased from 2013 to 2014, with the spread between the price of wire sold and the cost of raw aluminum purchased decreasing by 8.1%. Fluctuations in sales prices are primarily a result of changing copper and other raw material prices and product price competition. Cost of goods sold was \$880.9 million in 2015, compared to \$1.042 billion in 2014 and \$1.023 billion in 2013. The copper costs included in cost of goods sold were \$635.2 million in 2015 compared to \$778.1 million in 2014 and \$794.4 million in 2013. Copper costs as a percentage of net sales decreased to 62.4% in 2015 compared to 66.7% in 2014 and 68.6% in 2013. The decrease from 2014 to 2015 of copper costs as a percentage of net sales was due to copper costs decreasing while other components of cost of sales increased. As noted above, copper costs are the largest component of costs and therefore the most significant driver of sales prices of copper wire. Accordingly, the decrease in copper prices in 2015 and 2014 caused most of the other costs to grow in terms of their percentage of net sales dollars. The cost of other raw materials as a percentage of net sales rose from 11.5% in 2013 and 13.2% in 2014 to 14.9% in 2015. The consistent increase over the three year period is primarily due to the Company's increasing production of aluminum wire. Although aluminum is much cheaper than copper, the increased aluminum production drove the other materials category up as a percentage of net sales because aluminum is higher in cost than most of the other items in this category. Material cost percentages in 2015 decreased due to a 3.1% LIFO credit (income) and in 2014 decreased due to a 0.8% LIFO credit (income) and in 2013 decreased due to a 1.0% LIFO credit (income). Adding LIFO to the cost of copper and other materials, the total materials cost including LIFO in 2015 was 74.2% of net sales versus 79.1% in 2014 and 79.1% in 2013.

The decrease from 2013 to 2014 of copper costs as a percentage of net sales was due to copper costs decreasing while other components of cost of sales increased. As noted above, copper costs are the largest component of costs and therefore the most significant driver of sales prices of wire. Accordingly, the decrease in copper prices in 2014 and 2013 caused most of the other costs to grow in terms of their percentage of net sales dollars. The cost of other raw materials as a percentage of net sales rose from 9.6% in 2012 and 11.5% in 2013 to 13.2% in 2014. The consistent increase over the three year period is primarily due to the Company's increasing production of aluminum wire. Although aluminum is much cheaper than copper, the increased aluminum production drove the other materials category up as a percentage of net sales because aluminum is higher in cost than most of the items in this category. Other lower cost materials such as plastic also rose marginally in price in 2014. Material cost percentages in 2014 decreased due to a 0.8% LIFO credit (income) and in 2013 decreased due to a 1.0% LIFO credit (income) and in 2012 were increased by a 1.0% LIFO debit (expense). Adding LIFO to the cost of copper and other materials, the total materials cost including LIFO in 2014 was 79.1% of net sales versus 79.1% in 2013 and 82.9% in 2012.

Depreciation, labor and overhead costs as a percentage of net sales were 12.3% in 2015 compared to 10.2% in 2014 and 9.2% in 2013. The percentage increase of depreciation, labor and overhead costs in 2015 and 2014 versus 2013 was due primarily to the decrease in copper driven sales dollars per pound of sales trending the opposite direction of the increases in depreciation, labor and overhead costs. This disparity is somewhat due to the fact that depreciation, labor and overhead costs have fixed or semi-fixed components and do not vary directly with sales dollars or unit volumes.

Inventories consist of the following at December 31 (in thousands):

	2015	2014	2013
Raw materials	\$26,245	\$28,283	\$28,293
Work-in-process	20,155	19,169	21,881
Finished goods	70,348	84,020	82,997
Total	116,748	131,472	133,171
Adjust to LIFO cost	(21,494)	(53,221)	(62,391)
Lower of cost or market adjustment	—	—	—
Inventory	\$95,254	\$78,251	\$70,780

In 2015, copper traded in a range significantly lower than 2014, while exhibiting some volatility as shown in the copper table above. Following the global collapse of many commodities, copper prices in 2015 finished much lower than at the end of 2014. However, the quantity of total copper inventory on hand increased somewhat in 2015, compared to 2014. The other materials category, which includes a large number of raw materials, had quantity changes that included increases and decreases in various other materials. These factors resulted in the 2015 year-end inventory value of all inventories using the LIFO method being \$21.5 million less than the FIFO value, and the 2015 year end LIFO reserve balance being \$31.7 million lower than at the end of 2014. This resulted in a LIFO adjustment decreasing cost of sales by \$31.7 million in 2015.

In 2014, copper traded in a range similar to 2013, while still exhibiting some volatility as shown in the copper table above. Copper prices in 2014 finished lower than at the end of 2013. In addition, the quantity of total copper inventory on hand declined slightly in 2014, compared to 2013. The other materials category, which includes a large number of raw materials, had quantity changes that included increases and decreases in various other materials. These factors resulted in the 2014 year-end inventory value of all inventories using the LIFO method being \$53.2 million less than the FIFO value, and the 2014 year end LIFO reserve balance being \$9.2 million lower than at the end of 2013. This resulted in a LIFO adjustment decreasing cost of sales by \$9.2 million in 2014.

Based on the current copper and other raw material prices, there is no LCM adjustment necessary. Future reductions in the price of copper and other raw materials could require the Company to record an LCM adjustment against the related inventory balance, which would result in a negative impact on net income.

Gross profit was \$136.7 million, or 13.4% of net sales, in 2015 compared to \$125.0 million, or 10.7% of net sales, in 2014 and \$135.1 million, or 11.7% of net sales, in 2013. The changes in gross profit were due to the factors discussed above.

Selling expenses, which include freight and sales commissions, were \$47.2 million in 2015, \$52.5 million in 2014 and \$48.3 million in 2013. As a percentage of net sales, selling expenses increased to 4.6% in 2015 versus 4.5% in 2014 and 4.2% in 2013. General and administrative expenses, as a percentage of net sales, increased to 1.7% in 2015 versus 1.4% in 2014 and 1.4% in 2013. Percentages to sales of these costs rose slightly as the metal driven sales dollars declined. Accounts receivable write-offs were zero in 2015, 2014 and 2013. The Company did not increase the bad debt reserve in 2015, 2014 and 2013 to provide for potential bad debt expenses.

Interest expenses were \$0.2 million in 2015, \$0.3 million in 2014 and \$0.3 million in 2013. The Company capitalized zero interest expense relating to the construction of assets in 2015, 2014 and 2013.

The Company's effective tax rate was 34.2% in 2015, 33.9% in 2014 and 33.6% in 2013, commensurate with the Company's tax liabilities. The American Jobs Creation Act of 2004 provides a deduction from income for qualified domestic production activities. Accordingly, the impact of any deduction is being reported in the period for which the deduction will be claimed on the Company's tax return. The domestic production activity deduction reduced the 2015

effective tax rate approximately 1.2%.

As a result of the foregoing factors, the Company's net income was \$47.6 million in 2015, \$37.1 million in 2014 and \$46.9 million in 2013.

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Off-Balance Sheet Arrangements

The Company does not currently have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Liquidity and Capital Resources

The following table summarizes the Company's cash flow activities (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	\$70,768	\$63,122	\$47,218
Net cash used in investing activities	(43,469)	(44,231)	(43,466)
Net cash used in financing activities	(2,811)	(1,005)	(857)
Net increase (decrease) in cash and cash equivalents	\$24,488	\$17,886	\$2,895

The Company maintains a substantial inventory of finished products to satisfy customers' prompt delivery requirements. As is customary in the industry, the Company provides payment terms to most of its customers that exceed terms that it receives from its suppliers. In general, the Company's standard payment terms result in the collection of a significant majority of net sales within approximately 75 days of the date of the invoice. Therefore, the Company's liquidity needs have generally consisted of working capital necessary to finance receivables and inventory. Capital expenditures have historically been necessary to expand and update the production capacity of the Company's manufacturing operations. The Company has historically satisfied its liquidity and capital expenditure needs with cash generated from operations, borrowings under its various debt arrangements and sales of its common stock.

At December 31, 2015 and December 31, 2014, the Company had no debt outstanding.

The Company is party to a Credit Agreement with two banks, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association as syndication agent (as amended, the "Credit Agreement"). The Credit Agreement extends through October 1, 2017, and provides for maximum borrowings of the lesser of \$150.0 million or the amount of eligible accounts receivable plus the amount of eligible finished goods and raw materials, less any reserves established by the banks. Additionally, at our request and subject to certain conditions, the commitments under the Credit Agreement may be increased by a maximum of up to \$100.0 million as long as existing or new lenders agree to provide such additional commitments. The calculated maximum borrowing amount available at December 31, 2015, as computed under the Credit Agreement, was \$149.5 million. Borrowings under the line of credit bear interest, at the Company's option, at either (1) LIBOR plus a margin that varies from 0.875% to 1.75% depending upon the Leverage Ratio (as defined in the Credit Agreement), or (2) the base rate (which is the highest of the federal funds rate plus 0.5%, the prime rate, or LIBOR plus 1.0%) plus 0% to 0.25% (depending upon the Leverage Ratio). A commitment fee ranging from 0.15% to 0.30% (depending upon the Leverage Ratio) is payable on the unused line of credit. At December 31, 2015, there were no borrowings outstanding under the Credit Agreement. Obligations under the Credit Agreement are the only contractual borrowing obligations or commercial borrowing commitments of the Company.

Obligations under the Credit Agreement are unsecured and contain customary covenants and events of default. The Company was in compliance with the covenants as of December 31, 2015.

The Company paid interest totaling \$250,000, \$285,000 and \$265,000 in 2015, 2014 and 2013, respectively. The Company did not capitalize any interest in 2015, 2014 and 2013.

On November 10, 2006, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an authorized amount of shares of its common stock on the open market or through privately negotiated transactions at prices determined by the President of the Company during the term of the program. The Company's Board of Directors has authorized several increases and annual extensions of this stock repurchase program. As of December 31, 2015, the repurchase authorization had 1,132,946 shares remaining, and the stock repurchase program has been extended through March 31, 2017. The Company repurchased 92,804 shares of its stock in the third quarter of 2015 in the open market, its only purchases in 2015. The Company did not repurchase any shares of its stock in 2014. The Company also has a broker agreement to repurchase stock in the open market at

certain trigger points pursuant to a Rule 10b5-1 plan announced on November 28, 2007.

Net cash provided by operations was \$70.8 million in 2015 compared to \$63.1 million in 2014 and \$47.2 million in 2013. The increase in cash provided by operations of \$7.7 million in 2015 versus 2014 was due to several factors. The Company had increased net income of \$47.6 million in 2015 versus \$37.1 million of net income in 2014. Accounts receivable decreased in 2015, resulting in cash provided of \$20.8 million versus cash provided of \$8.8 million in 2014, resulting in a positive addition in operating cash flow of \$12.0 million. Accounts receivable generally fluctuate in proportion to dollar sales and to a lesser extent are affected by the timing of when sales occur during a given quarter. Additionally, accounts receivable can fluctuate based upon the payment timing patterns of certain large customers, although increases in accounts receivable at the end of quarterly reporting periods for this reason have not historically raised collectability issues. Changes in current and deferred taxes resulted in \$11.0 million cash provided in 2015 versus cash used of \$0.9 million in 2014, a positive swing of \$11.9 million in 2015 versus 2014. Changes in inventory resulted in cash used of \$17.0 million in 2015 versus cash used of \$7.5 million in 2014, a \$9.5 million increase in cash used. Changes in trade accounts payable and accrued liabilities resulted in cash used of \$5.9 million in 2015 versus cash provided of \$9.3 million in 2014, a negative swing of \$15.2 million. These changes in cash flow were the primary drivers of the \$7.7 million increase in net cash flow provided by operations in 2015 versus 2014. The increase in cash provided by operations of \$15.9 million in 2014 versus 2013 was due to several factors. The Company had decreased net income of \$37.1 million in 2014 versus \$46.9 million of net income in 2013. Accounts receivable decreased in 2014, resulting in cash provided of \$8.8 million versus cash used of \$17.8 million in 2013, resulting in a positive swing in operating cash flow of \$26.6 million in 2014 versus 2013. Accounts receivable generally fluctuate in proportion to dollar sales and to a lesser extent are affected by the timing of when sales occur during a given quarter. Additionally, accounts receivable can fluctuate based upon the payment timing patterns of certain large customers, although increases in accounts receivable at the end of quarterly reporting periods for this reason have not historically raised collectability issues. Changes in current and deferred taxes resulted in \$0.9 million cash used in 2014 versus cash provided of \$5.2 million in 2013, a negative swing of \$6.2 million in 2014 versus 2013. Changes in Trade Accounts Payable and Accrued Liabilities resulted in cash provided of \$9.3 million in 2014 versus cash provided of \$2.9 million in 2013, a positive swing of \$6.4 million in 2014 versus 2013. These changes in cash flow were the primary drivers of the \$15.9 million increase in net cash flow provided by operations in 2014 versus 2013.

Net cash used in investing activities was \$43.5 million in 2015 versus \$44.2 million in 2014 and \$43.5 million in 2013. In 2015, capital expenditures were used primarily for the purchase and installation of machinery and equipment in the aluminum wire plant expansion project. In 2014, capital expenditures were used primarily for the construction of the new aluminum wire plant expansion project and the purchase and installation of machinery and equipment in that plant. In 2013, capital expenditures were used primarily to purchase 201 acres of land adjacent to the Company's existing campus in McKinney, Texas for \$25.7 million.

The net cash used in financing activities of \$2.8 million in 2015 consisted primarily of \$2.9 million used to repurchase 92,804 shares of its common stock in the third quarter along with dividend payments of \$1.7 million offset by \$1.7 million proceeds from issuance of Company stock related to employees exercising stock options. The net cash used in financing activities of \$1.0 million in 2014 consisted primarily of \$1.7 million in dividend payments offset by \$0.5 million proceeds from issuance of Company stock related to employees exercising stock options. The cash used of \$0.9 million in 2013 consisted primarily of \$1.7 million in dividend payments offset by \$0.6 million proceeds from issuance of Company stock related to employees exercising stock options.

During 2016, the Company expects its capital expenditures will consist primarily of machinery and equipment for its manufacturing operations. The Company also expects its future working capital requirements may fluctuate as a result of changes in unit sales volumes and the price of copper and other raw materials. The Company believes that its cash balance, cash flow from operations and the financing available from its revolving credit facility will satisfy working capital and capital expenditure requirements for the next twelve months.

Contractual Obligations

As shown below, the Company had the following contractual obligations as of December 31, 2015.

Contractual Obligations	Payments Due By Period (\$ in Thousands)				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-Term Debt Obligations	\$—	\$—	\$—	\$—	\$—
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	—	—	—	—	—
Purchase Obligations	46,609	46,609	—	—	—
Total	\$46,609	\$46,609	\$—	\$—	\$—

Note: Amounts listed as purchase obligations consist of open purchase orders for major raw material purchases and \$26.8 million of capital equipment and construction purchase orders open as of December 31, 2015.

Critical Accounting Policies and Estimates

Management's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. See Note 1 to the Consolidated Financial Statements. Management believes the following critical accounting policies affect its more significant estimates and assumptions used in the preparation of its consolidated financial statements.

Inventories are stated at the lower of cost, using the last-in, first out (LIFO) method, or market. The Company maintains two inventory pools for LIFO purposes. As permitted by U.S. generally accepted accounting principles, the Company maintains its inventory costs and cost of goods sold on a first-in, first-out (FIFO) basis and makes a monthly adjustment to adjust total inventory and cost of goods sold from FIFO to LIFO. The Company applies the lower of cost or market (LCM) test by comparing the LIFO cost of its raw materials, work-in-process and finished goods inventories to estimated market values, which are based primarily upon the most recent quoted market price of copper, aluminum and finished wire prices as of the end of each reporting period. The Company performs a lower of cost or market calculation quarterly. As of December 31, 2015, no LCM adjustment was required. However, decreases in copper and other material prices could necessitate establishing an LCM reserve in future periods. Additionally, future reductions in the quantity of inventory on hand could cause copper or other raw materials that are carried in inventory at costs different from the cost of copper and other raw materials in the period in which the reduction occurs to be included in costs of goods sold for that period at the different price.

Revenue from the sale of the Company's products is recognized when goods are shipped to the customer, title and risk of loss are transferred, pricing is fixed or determinable and collection is reasonably assured. A provision for payment discounts 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 has provided an allowance for losses on customer receivables based upon estimates of those customers' inability to make required payments. Such allowance is established and adjusted based upon the makeup of the current receivable portfolio, past bad debt experience and current market conditions. If the financial condition of our customers was to deteriorate and impair their ability to make payments to the Company, additional allowances for losses might be required in future periods.

Recent Accounting Pronouncements

In November 2015, the FASB amended the accounting standard for balance sheet classification of deferred taxes. The standard simplifies the balance sheet classification of deferred taxes and requires that all deferred taxes be presented as noncurrent. The standard will become effective for us beginning on January 1, 2017. We are currently evaluating the impact of adopting this standard on our financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede virtually all existing revenue recognition guidance under generally accepted accounting principles in the United States. Under the

new standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more

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judgment and make more estimates than under current guidance. In July 2015, the FASB agreed to delay the effective date by one year. In accordance with the agreed upon delay, the new standard will become effective for us beginning on January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the impact this standard may have on our financial position, results of operations and cash flows.

Information Regarding Forward-Looking Statements

This report contains various forward-looking statements and information that are based on management's belief as well as assumptions made by and information currently available to management. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expected.

Among the key factors that may have a direct bearing on the Company's operating results and stock price are:

- fluctuations in the global and national economy
- fluctuations in the level of activity in the construction industry, including remodeling
- demand for the Company's products
- the impact of price competition on the Company's margins
- fluctuations in the price of copper and other key raw materials
- the loss of key manufacturers' representatives who sell the Company's product line
- fluctuations in utility costs, especially electricity and natural gas
- fluctuations in insurance costs and coverage of various types
- weather related disasters at the Company's and/or key vendor's operating facilities
- stock price fluctuations due to "stock market expectations" and other external variables
- unforeseen future legal issues and/or government regulatory changes
- patent and intellectual property disputes, and
- fluctuations in the Company's financial position or national banking issues that impede the Company's ability to obtain reasonable and adequate financing.

This list highlights some of the major factors that could affect the Company's operations or stock price, but cannot enumerate all the potential issues that management faces on a daily basis, many of which are totally out of management's control. For further discussion of the factors described herein and their potential effects on the Company, see "Item 1. Business," "Item 1A. Risk Factors," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk." Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The Company does not engage in metal futures trading or hedging activities and does not enter into derivative financial instrument transactions for trading or other speculative purposes. However, the Company is generally exposed to commodity price and interest rate risks.

The Company purchases copper cathode primarily from miners and commodity brokers at prices determined each month based on the average daily COMEX closing prices for copper for that month, plus a negotiated premium. As a result, fluctuations in copper prices caused by market forces can significantly affect the Company's financial results. Interest rate risk is attributable to the Company's long-term debt. As of December 31, 2015, the Company was a party to the Credit Agreement. Amounts outstanding under the Credit Agreement, as amended, are payable on October 1, 2017, with interest payments due quarterly. At December 31, 2015, the balance outstanding under the Credit Agreement was zero.

There is inherent rollover risk for borrowings under the Credit Agreement as such borrowings mature and are renewed at current market rates. The extent of this risk is not quantifiable or predictable because of the variability of future interest rates and the Company's future financing requirements. Assuming that the Company had \$100.0 million of outstanding debt, an average 1% interest rate increase in 2015 would increase the Company's interest expense by \$1.0 million.

For further information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Item 1A. Risk Factors."

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of the Company and the notes thereto appear on the following pages.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Encore Wire Corporation

We have audited the accompanying consolidated balance sheets of Encore Wire Corporation (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Encore Wire Corporation at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Encore Wire Corporation's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas

February 26, 2016

Encore Wire Corporation
Consolidated Balance Sheets
As of December 31, 2015 and 2014
(In thousands, except share and per share data)

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$79,152	\$54,664
Accounts receivable, net of allowance of \$2,065 and \$2,065	186,065	206,908
Inventories	95,254	78,251
Income taxes receivable	7,344	1,951
Deferred income taxes	—	1,306
Prepaid expenses and other	2,340	2,235
Total current assets	370,155	345,315
Property, plant and equipment – at cost:		
Land and land improvements	50,580	48,305
Construction-in-progress	33,942	48,245
Buildings and improvements	102,432	96,405
Machinery and equipment	274,755	228,371
Furniture and fixtures	9,012	8,682
Total property, plant and equipment	470,721	430,008
Accumulated depreciation	(215,953)	(203,502)
Property, plant and equipment – net	254,768	226,506
Other assets	3,193	930
Total assets	\$628,116	\$572,751
Liabilities and Stockholders' Equity		
Current liabilities:		
Trade accounts payable	\$28,743	\$31,147
Accrued liabilities	25,499	28,191
Income taxes payable	—	—
Deferred income taxes	8,473	—
Total current liabilities	62,715	59,338
Noncurrent deferred income taxes	26,762	20,226
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value:		
Authorized shares – 2,000,000; none issued	—	—
Common stock, \$.01 par value:		
Authorized shares – 40,000,000;		
Issued shares – 26,715,216 and 26,657,003	267	267
Additional paid-in capital	53,024	50,598

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Treasury stock, at cost – 6,027,455 and 5,934,651 shares	(91,056)	(88,134)
Retained earnings	576,404	530,456
Total stockholders' equity	538,639	493,187
Total liabilities and stockholders' equity	\$628,116	\$572,751
See accompanying notes.		

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Encore Wire Corporation
Consolidated Statements of Income
For the Years Ended December 31, 2015, 2014, and 2013
(In thousands, except per share data)

	2015	2014	2013
Net sales	\$ 1,017,622	\$ 1,166,979	\$ 1,158,252
Cost of goods sold	880,900	1,042,002	1,023,180
Gross profit	136,722	124,977	135,072
Selling, general and administrative expenses	64,493	68,876	64,453
Operating income	72,229	56,101	70,619
Other (income) expense:			
Interest and other income	(405)	(341)	(329)
Interest expense	250	285	265
Income before income taxes	72,384	56,157	70,683
Provision for income taxes	24,779	19,034	23,773
Net income	\$47,605	\$37,123	\$46,910
Net income per common and common equivalent share – basic	\$2.30	\$1.79	\$2.27
Weighted average common and common equivalent shares outstanding – basic	20,713	20,714	20,676
Net income per common and common equivalent share – diluted	\$2.29	\$1.78	\$2.26
Weighted average common and common equivalent shares outstanding – diluted	20,787	20,821	20,764
Cash dividends declared per share	\$0.08	\$0.08	\$0.08
See accompanying notes.			

Encore Wire Corporation
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2015, 2014, and 2013
(In thousands, except per share data)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
	Shares	Amount				
Balance at December 31, 2012	26,598	\$266	\$48,298	\$(88,134)	\$449,734	\$410,164
Net income	—	—	—	—	46,910	46,910
Exercise of stock options	34	—	622	—	—	622
Tax benefit on exercise of stock options	—	—	175	—	—	175
Stock-based compensation	—	—	364	—	—	364
Dividend declared—\$0.08 per share	—	—	—	—	(1,654)	(1,654)
Purchase of treasury stock	—	—	—	—	—	—
Balance at December 31, 2013	26,632	266	49,459	(88,134)	494,990	456,581
Net income	—	—	—	—	37,123	37,123
Exercise of stock options	25	1	528	—	—	529
Tax benefit on exercise of stock options	—	—	123	—	—	123
Stock-based compensation	—	—	488	—	—	488
Dividend declared—\$0.08 per share	—	—	—	—	(1,657)	(1,657)
Purchase of treasury stock	—	—	—	—	—	—
Balance at December 31, 2014	26,657	267	50,598	(88,134)	530,456	493,187
Net income	—	—	—	—	47,605	47,605
Exercise of stock options	58	—	1,728	—	—	1,728
Tax benefit on exercise of stock options	—	—	40	—	—	40
Stock-based compensation	—	—	658	—	—	658
Dividend declared—\$0.08 per share	—	—	—	—	(1,657)	(1,657)
Purchase of treasury stock	—	—	—	(2,922)	—	(2,922)
Balance at December 31, 2015	26,715	\$267	\$53,024	\$(91,056)	\$576,404	\$538,639

See accompanying notes.

Encore Wire Corporation
Consolidated Statements of Cash Flow
For the Years Ended December 31, 2015, 2014, and 2013
(In thousands)

	2015	2014	2013
Operating Activities			
Net income	\$47,605	\$37,123	\$46,910
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	16,063	15,453	14,788
Deferred income taxes	16,315	2,349	5,415
Excess tax benefits of options exercised	(40)	(123)	(175)
Stock-based compensation	802	703	364
Other	(190)	(116)	(604)
Changes in operating assets and liabilities:			
Accounts receivable	20,843	8,831	(17,760)
Inventories	(17,003)	(7,471)	(7,124)
Trade accounts payable and accrued liabilities	(5,859)	9,309	2,921
Other assets and liabilities	(2,415)	339	2,668
Current income taxes receivable / payable	(5,353)	(3,275)	(185)
Net cash provided by (used in) operating activities	70,768	63,122	47,218
Investing Activities			
Purchases of property, plant and equipment	(43,711)	(44,274)	(44,505)
Proceeds from sale of assets	242	75	1,039
Other	—	(32)	—
Net cash provided by (used in) investing activities	(43,469)	(44,231)	(43,466)
Financing Activities			
Purchase of treasury stock	(2,922)	—	—
Proceeds from issuance of common stock, net	1,728	529	622
Dividends paid	(1,657)	(1,657)	(1,654)
Excess tax benefits of options exercised	40	123	175
Net cash provided by (used in) financing activities	(2,811)	(1,005)	(857)
Net increase (decrease) in cash and cash equivalents	24,488	17,886	2,895
Cash and cash equivalents at beginning of year	54,664	36,778	33,883
Cash and cash equivalents at end of year	\$79,152	\$54,664	\$36,778
See accompanying notes.			

Encore Wire Corporation

Notes to Consolidated Financial Statements

December 31, 2015

1. Significant Accounting Policies

Business

The Company conducts its business in one segment – the manufacture of electric building wire, principally NM-B cable, for use primarily as interior wiring in homes, apartments, and manufactured housing, and THHN/THWN-2 cable and metal-clad and armored cable for use primarily as wiring in commercial and industrial buildings. The Company sells its products primarily through 30 manufacturers' representatives located throughout the United States and, to a lesser extent, through its own direct marketing efforts. The principal customers for Encore's building wire are wholesale electrical distributors.

Copper, a commodity product, is the principal raw material used in the Company's manufacturing operations. Copper accounted for 72.1%, 74.7% and 77.6% of the cost of goods sold during 2015, 2014, and 2013, respectively. The price of copper fluctuates, depending on general economic conditions and in relation to supply and demand and other factors, and has caused monthly variations in the cost of copper purchased by the Company. The Company cannot predict future copper prices or the effect of fluctuations in the cost of copper on the Company's future operating results. As the Company continues to expand its product offerings with aluminum wire, the cost of aluminum will impact the raw materials discussion throughout this report. During 2015, aluminum rod used to draw into aluminum wire constituted 4.9% of cost of goods sold.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Intercompany accounts and transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Revenue from the sale of the Company's products is recognized when goods are shipped to the customer, title and risk of loss are transferred, pricing is fixed or determinable and collection is reasonably assured. A provision for payment discounts 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.

Freight Expenses

The Company classifies shipping and handling costs as a component of selling, general and administrative expenses. Shipping and handling costs were approximately \$22.7 million, \$24.9 million and \$21.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Fair Value of Financial Instruments

Certain items are required to be measured at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A three-level hierarchy is followed for disclosure to show the extent and level of judgment used to estimate fair value measurements:

Level 1 – Inputs used to measure fair value are unadjusted quoted prices that are available in active markets for the identical assets or liabilities as of the reporting date.

Level 2 – Inputs used to measure fair value, other than quoted prices included in Level 1, are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3 – Inputs used to measure fair value are unobservable inputs that are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management’s estimates of market participant assumptions.

At December 31, 2015 and 2014, the carrying values of cash and cash equivalents, accounts receivable, trade accounts payable and accrued liabilities approximate fair values due to the short-term nature of these financial instruments.

At December 31, 2015 and 2014, the Company had no financial instruments that were required to be measured at fair value on a recurring basis.

Concentrations of Credit Risk and Accounts Receivable

Accounts receivable represent amounts due from customers (primarily wholesale electrical distributors, manufactured housing suppliers and retail home improvement centers) related to the sale of the Company’s products. Such receivables are uncollateralized and are generally due from a diverse group of customers located throughout the United States. The Company establishes an allowance for losses based upon the makeup of the current portfolio, past bad debt experience and current market conditions.

Allowance for Losses Progression (In Thousands)	2015	2014	2013
Beginning balance January 1	\$2,065	\$2,065	\$2,064
(Write offs) of bad debts, net of collections of previous write offs	—	—	1
Bad debt provision	—	—	—
Ending balance at December 31	\$2,065	\$2,065	\$2,065

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At December 31, 2015 and 2014, the Company’s cash equivalents consisted of investments in money market accounts with the Company’s banks.

Inventories

Inventories are stated at the lower of cost, using the last-in, first-out (LIFO) method, or market. The Company evaluates the market value of its raw materials, work-in-process and finished goods inventory primarily based upon current raw material and finished goods prices at the end of each period.

Property, Plant, and Equipment

Depreciation of property, plant and equipment for financial reporting is provided on the straight-line method over the estimated useful lives of the respective assets as follows: buildings and improvements, 15 to 39 years; machinery and equipment, 3 to 20 years; and furniture and fixtures, 3 to 15 years. Accelerated cost recovery methods are used for tax purposes. Repairs and maintenance costs are expensed as incurred.

Stock-Based Compensation

The Company follows the fair value based method in accounting for equity-based compensation. Under the fair value based method, compensation cost is measured at the grant date based on the fair value of the award and is recognized on a straight-line basis over the related service period. Excess tax benefits on stock-based compensation are recognized as an increase to additional paid-in capital and as a part of cash flows from financing activities.

Earnings Per Share

Earnings per common and common equivalent share is computed using the weighted average number of shares of common stock and common stock equivalents outstanding during each period. The dilutive effects of stock options, which are common stock equivalents, are calculated using the treasury stock method.

Income Taxes

Income taxes are provided for based on the liability method, resulting in deferred income tax assets and liabilities arising due to temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. There were no differences between comprehensive income and reported income in the periods presented.

2. Inventories

Inventories consist of the following as of December 31:

In Thousands	2015	2014
Raw materials	\$26,245	\$28,283
Work-in-process	20,155	19,169
Finished goods	70,348	84,020
Total	116,748	131,472
Adjust to LIFO cost	(21,494)	(53,221)
Lower of cost or market adjustment	—	—
Inventory	\$95,254	\$78,251

During 2015 and 2014 the Company did not liquidate any LIFO inventory layers established in prior years.

3. Accrued Liabilities

Accrued liabilities consist of the following as of December 31:

In Thousands	2015	2014
Sales volume discounts payable	\$13,193	\$16,011
Property taxes payable	3,444	3,510
Commissions payable	1,939	2,064
Accrued salaries	5,801	4,800
Other accrued liabilities	1,122	1,806
Total accrued liabilities	\$25,499	\$28,191

4. Debt

At December 31, 2015 and December 31, 2014, the Company had no debt outstanding.

The Company is party to a Credit Agreement with two banks, Bank of America, N.A., as administrative agent and letter of credit issuer, and Wells Fargo Bank, National Association as syndication agent (as amended, the "Credit Agreement"). The Credit Agreement extends through October 1, 2017, and provides for maximum borrowings of the lesser of \$150.0 million or the amount of eligible accounts receivable plus the amount of eligible finished goods and raw materials, less any reserves established by the banks. Additionally, at our request and subject to certain conditions, the commitments under the Credit Agreement may be increased by a maximum of up to \$100.0 million as long as existing or new lenders agree to provide such additional commitments. The calculated maximum borrowing amount available at December 31, 2015, as computed under the Credit Agreement, was \$149.5

million. Borrowings under the line of credit bear interest, at the Company's option, at either (1) LIBOR plus a margin that varies from 0.875% to 1.75% depending upon the Leverage Ratio (as defined in the Credit Agreement), or (2) the base rate (which is the highest of the federal funds rate plus 0.5%, the prime rate, or LIBOR plus 1.0%) plus 0% to 0.25% (depending upon the Leverage Ratio). A commitment fee ranging from 0.15% to 0.30% (depending upon the Leverage Ratio) is payable on the unused line of credit. At December 31, 2015, there were no borrowings outstanding under the Credit Agreement. Obligations under the Credit Agreement are the only contractual borrowing obligations or commercial borrowing commitments of the Company.

Obligations under the Credit Agreement are unsecured and contain customary covenants and events of default. The Company was in compliance with the covenants as of December 31, 2015.

The Company paid interest totaling \$250,000, \$285,000 and \$265,000 in 2015, 2014 and 2013, respectively. The Company did not capitalize any interest in 2015, 2014 and 2013.

5. Income Taxes

The provisions for income tax expense are summarized as follows for the years ended December 31:

In Thousands	2015	2014	2013
Current:			
Federal	\$7,918	\$15,742	\$17,011
State	546	943	1,347
Deferred	16,315	2,349	5,415
Total Income Tax Expense	\$24,779	\$19,034	\$23,773

The differences between the provision for income taxes and income taxes computed using the federal income tax rate are as follows for the years ended December 31:

In Thousands	2015	2014	2013
Amount computed using the statutory rate	\$25,334	\$19,655	\$24,739
State income taxes, net of federal tax benefit	244	691	1,063
Qualified domestic production activity deduction	(859)	(1,698)	(1,797)
Other items	60	386	(232)
Total Income Tax Expense	\$24,779	\$19,034	\$23,773

In October 2004, the American Jobs Creation Act of 2004 ("the Act") was passed, which provides a deduction for income from qualified domestic production activities. This deduction lowered the Company's effective tax rate by approximately 1.2%, 3.0%, and 2.5% for 2015, 2014 and 2013, respectively.

The tax effect of each type of temporary difference giving rise to the net deferred tax liability at December 31, 2015 and 2014 is as follows:

In Thousands	Deferred Tax Asset (Liability)			
	2015			2014
	Current	Non-current	Current	Non-current
Depreciation	\$—	\$(26,892)	\$—	\$(20,226)
Inventory	(10,101)	—	(451)	—
Allowance for doubtful accounts	749	—	749	—
Uniform capitalization rules	145	—	463	—
Other	734	130	545	—
Deferred income tax asset (liability)	\$(8,473)	\$(26,762)	\$1,306	\$(20,226)

The Company made income tax payments of \$14.0 million in 2015, \$20.0 million in 2014 and \$18.5 million in 2013.

The Company's federal income tax returns for the years subsequent to December 31, 2011 remain subject to examination. The Company's income tax returns in major state income tax jurisdictions remain subject to examination for various periods subsequent to December 31, 2010. The Company has no reserves for uncertain tax positions as of December 31, 2015. Interest and penalties resulting from audits by tax authorities have been immaterial and are included in the provision for income taxes in the consolidated statements of income.

6. Stock-Based Compensation

Total stock-based compensation expense by type of award was as follows for the years ended December 31:

In Thousands	2015	2014	2013
Stock options	\$658	\$488	\$364
Stock appreciation rights ("SARs")	144	215	—
Total stock-based compensation expense	\$802	\$703	\$364
Tax benefit on exercise of stock options	\$40	\$123	\$175

Stock Options:

In 2010, the Board of Directors adopted a new stock option plan called the Encore Wire 2010 Stock Option Plan (the "2010 Stock Option Plan") which was approved by the Company's stockholders at the 2010 Annual Meeting of Stockholders. Similar to the "1999 Stock Option Plan", which expired on June 28, 2009, the 2010 Stock Option Plan permits the grant of stock options to directors, officers and employees of the Company. The Company granted stock option awards in 2015, 2014 and 2012 with exercise prices equal to the fair market value of its stock on the date of grant of the options. These options vest ratably over a period of five years from the time the options were granted. No options were granted in 2013. The maximum term of any option granted under the 1999 or 2010 Stock Option Plan is ten years. As of December 31, 2015, 250,300 options were available to be granted in the future under the 2010 Stock Option Plan.

The following presents a summary of stock option activity for the year ended December 31, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In Thousands)
Outstanding at January 1, 2015	330,900	\$29.95		
Granted	49,000	31.62		
Exercised	(58,213) 29.38		
Forfeited/Cancelled	(800) 28.74		
Outstanding at December 31, 2015	320,887	\$30.25	5.5 years	\$2,926
Vested and exercisable at December 31, 2015	182,586	\$25.71	3.8 years	\$2,240

The fair value of stock options granted during the years ended December 31, 2015, 2014, and 2013, was estimated on the date of grant using a Black-Scholes option pricing model and the following weighted average assumptions:

	Year Ended December 31,		
	2015	2014	2013
Risk-free interest rate	1.22	% 1.57	% n/a
Expected dividend yield	0.25	% 0.15	% n/a
Expected volatility	31.9	% 32.9	% n/a
Expected lives	5.0 years	5.0 years	n/a

We base expected volatilities on historical volatilities of our common stock. The expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting periods and management's consideration of historical exercise patterns. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding to the expected life of the option. The expected dividend yield is based on the annualized dividend payment paid on common shares.

ASC 718 requires the estimation of forfeitures when recognizing compensation expense and adjustment of the estimated forfeiture rate over the requisite service period should actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change and impacts the amount of un-recognized compensation expense to be recorded in future periods.

During the years ended December 31, 2015, 2014, and 2013, the weighted average grant date fair value of options granted was \$9.25, \$16.03 and n/a, respectively, and the total intrinsic value of options exercised was \$0.7 million, \$0.7 million and \$0.8 million, respectively. As of December 31, 2015, total unrecognized compensation cost related to non-vested stock options of \$1.0 million was expected to be recognized over a weighted average period of 2.8 years.

Stock Appreciation Rights:

In 2014, the Board of Directors adopted a new stock appreciation rights plan called the Encore Wire 2014 Stock Appreciation Rights Plan (the "2014 SARs Plan"). The 2014 SARs Plan permits the grant of stock appreciation rights ("SARs") that may only be settled in cash to non-executive officers and employees of the Company. The Company granted SARs for the first time in 2014 for a nominal amount. SARs granted to employees vest ratably over a period of five years from the time the SARs were granted. The maximum term of any SARs granted under the 2014 SARs Plan is ten years. These awards are classified as liability awards. Compensation cost for these awards is determined using a fair value method and remeasured at each reporting date until the date of settlement. Stock-based compensation expense recognized is based on SARs ultimately expected to vest, and therefore it has been reduced for estimated forfeitures. As of December 31, 2015, a total of 133,000 SARs were outstanding under the 2014 SARs Plan.

7. Earnings Per Share

The following table sets forth certain components of the computation of basic and diluted earnings per share for the year ended December 31:

In Thousands	2015	2014	2013
Numerator:			
Net income	\$47,605	\$37,123	\$46,910
Denominator:			
Denominator for basic earnings per share – weighted average shares	20,713	20,714	20,676
Effect of dilutive securities:			
Employee stock options	74	107	88
Denominator for diluted earnings per share – weighted average shares	20,787	20,821	20,764
Stock options to purchase common stock at exercise prices in excess of the average actual stock price for the period that were anti-dilutive and that were excluded from the determination of diluted earnings per share are as follows:			
In Thousands, Except Per Share Data	2015	2014	2013
Weighted average anti-dilutive stock options	96	54	191
Weighted average exercise price per share	\$43.43	\$49.90	\$31.16

8. Stockholders' Equity

On November 10, 2006, the Board of Directors approved a stock repurchase program authorizing the Company to repurchase up to an authorized amount of shares of its common stock on the open market or through privately negotiated transactions at prices determined by the President of the Company during the term of the program. The Company's Board of Directors has authorized several increases and annual extensions of this stock repurchase program. As of December 31, 2015, the repurchase authorization had 1,132,946 shares remaining, and the stock repurchase program has been extended through March 31, 2017. The Company repurchased 92,804 shares of its stock in the third quarter of 2015 in the open market, its only purchases in 2015. The Company did not repurchase any shares of its stock in 2014. Other than the Company's repurchase of 2,774,250 shares of common stock owned by Capital Southwest Venture Corporation on May 14, 2012, all shares purchased under the program were purchased on the open market by the Company's broker pursuant to a Rule 10b5-1 plan announced on November 28, 2007.

9. Contingencies

On July 7, 2009, Southwire Company, a Delaware corporation ("Southwire"), filed a complaint for patent infringement against the Company and Cerro Wire, Inc. ("Cerro") in the United States District Court for the Eastern District of Texas. In the complaint, Southwire alleged that the Company infringed one or more claims of United States Patent No. 7,557,301 (the "301 patent"), entitled "Method of Manufacturing Electrical Cable Having Reduced Required Force for Installation," by making and selling electrical cables, including the Company's Super Slick cables. The case has been transferred to the Northern District of Georgia and the parties have agreed to stay it pending reexamination of the '301 patent by the United States Patent and Trademark Office (the "USPTO"). On June 23, 2011, the USPTO issued an office action in the reexamination finally rejecting all the claims of the '301 patent. Southwire responded to these final rejections on August 8, 2011 by submitting substantially amended claims. The examiner determined that the amended claims captured patentable subject matter and on September 21, 2011 issued a notice that a reexamination certificate would be issued evidencing the patentability of the amended claims. The reexamination certificate was issued on the '301 patent on December 27, 2011. Subsequent to the issuance of the '301 reexamination certificate, a new inter partes reexamination proceeding was instituted by Cerro Wire against the reexamined '301 patent. The parties convened on March 21, 2012 and August 27, 2012 for settlement conferences regarding the '301 patent lawsuit. Such settlement conferences did not result in any negotiation, agreement, decision or other development that the Company believed is

material to such lawsuit.

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Settlement discussions continue between the parties. On September, 29, 2015, the Patent Trial and Appeal Board (the "PTAB") issued an opinion affirming the Examiner's rejection of all of the claims of the '301 Patent. Southwire intends to appeal this decision.

On July 2, 2010, the Company filed a complaint against Southwire in the Northern District of Georgia. The complaint alleged that Southwire was using a deceptively misdescriptive trademark on its SimPull products, and that Southwire had made false statements about the Company's Slick Wire products. Southwire's United States Patent No. 7,749,024 ("the '024 patent") issued on July 6, 2010. The morning the patent issued, the Company amended its complaint to seek a declaratory judgment that the Company's Slick Wire products do not infringe the '024 patent. Later that same day, Southwire filed a separate complaint against the Company and Cerro Wire in the Eastern District of Texas alleging infringement of the '024 patent. The Company's complaint against Southwire was stayed by agreement on April 11, 2011. The case is currently stayed. The complaint filed by Southwire in the Eastern District of Texas has been voluntarily dismissed. On October 8, 2010, the Company filed a request with the USPTO for an inter partes reexamination of the '024 patent. On November 9, 2010, the USPTO ordered the reexamination of the '024 patent. On March 28, 2014, the PTAB issued its Decision on Appeal, and issued its Decision on the Request for Rehearing on November 3, 2014. Southwire and the Company each appealed the PTAB's Decision to the Federal Circuit. Oral argument was held on October 7, 2015. On October 20, 2015, the Federal Circuit dismissed the appeal as moot because the Federal Circuit had the same day affirmed the rejection of all the claims of the '024 patent in the Cerro reexamination. The deadline for Southwire to appeal to the United States Supreme Court has now passed. The judgment finding the '024 patent claims invalid is therefore final, and the issues related to that patent are no longer in dispute.

With the exception of issues related to the '024 patent just discussed, the potentially applicable factual and legal issues related to the above claims asserted against the Company have not been resolved. The Company disputes all of Southwire's claims and alleged damages and intends to vigorously defend the lawsuits and vigorously pursue its own claims against Southwire if and when the litigation resumes.

At this time, given the status of the proceedings, the complexities of the facts in dispute and the multiple claims involved, the Company has not concluded that a probable loss exists with respect to the Southwire litigation. Accordingly, no accrual has been made. Additionally, given the aforementioned uncertainties, while it is reasonably possible we may incur a loss, the Company is unable to estimate any possible loss or range of losses for disclosure purposes.

10. Encore Wire Corporation 401(k) Profit Sharing Plan

The Company sponsors a tax qualified 401(k) profit sharing plan known as the Encore Wire Corporation 401(k) Profit Sharing Plan (the "401(k) Plan") that is intended to provide participating employees an opportunity to save money for retirement. Effective January 1, 2015, employees are immediately eligible to participate in the 401(k) Plan and to receive matching contributions after attaining age 18. Employees who do not take action to either enroll or decline to enroll in the 401(k) Plan within a 30 day notification period, are automatically enrolled in the Plan with a pre-tax contribution rate equal to 5% of their eligible compensation (as defined in the 401(k) Plan). Prior to January 1, 2015, the 401(k) Plan did not provide for automatic enrollment, and employees were eligible to participate in the 401(k) Plan and to receive matching contributions after attaining age 21 and completing one year of service (as defined in the 401(k) Plan).