GENERAL CABLE CORP /DE/
Form 10-Q
August 08, 2007

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

(Mark One)

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

For the quarterly period ended June 29, 2007

OR

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

For the transition period from __________ to __________.

Commission file number: 1-12983

GENERAL CABLE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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

Class	Outstanding at August 1, 2007
Common Stock, $0.01 per value	52,515,559

GENERAL CABLE CORPORATION AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT
ON FORM 10-Q

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PART I. FINANCIAL STATEMENTS
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Fiscal Months Ended		Six Fiscal Months Ended	
	June 29, 2007	June 30, 2006	June 29, 2007	June 30, 2006
Net sales	$ 1,172.5	$ 987.1	$ 2,181.7	$ 1,791.4
Cost of sales	999.4	857.6	1,848.8	1,564.3
Gross profit	173.1	129.5	332.9	227.1
Selling, general and administrative expenses	70.1	59.1	138.8	114.5
Operating income	103.0	70.4	194.1	112.6
Other income (expense)	(1.5)	0.2	(1.5)	1.0
Interest income (expense):				
Interest expense	(10.6)	(12.3)	(19.5)	(22.4)
Interest income	3.9	0.7	6.9	1.2
Loss on extinguishment of debt			(25.1)	
	(6.7)	(11.6)	(37.7)	(21.2)
Income before income taxes	94.8	59.0	154.9	92.4
Income tax provision	(31.9)	(17.5)	(54.1)	(29.5)
Net income	62.9	41.5	100.8	62.9
Less: preferred stock dividends	(0.1)	(0.1)	(0.2)	(0.2)
Net income applicable to common shareholders	$ 62.8	$ 41.4	$ 100.6	$ 62.7
Earnings per share				
Earnings per common share-basic	$ 1.23	$ 0.81	$ 1.97	$ 1.24

Weighted average common shares-basic	51.2	50.8	51.1	50.4
Earnings per common share-assuming dilution	$ 1.15	$ 0.80	$ 1.87	$ 1.21
Weighted average common shares-assuming dilution	54.7	52.2	53.8	51.8

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	June 29, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 382.4	$ 310.5
Receivables, net of allowances of $12.5 million at June 29, 2007 and $10.0 million at December 31, 2006	978.9	723.7
Inventories	633.4	563.1
Deferred income taxes	110.1	104.1
Prepaid expenses and other	44.1	32.9
Total current assets	2,148.9	1,734.3
Property, plant and equipment, net	448.2	416.7
Deferred income taxes	26.5	28.8
Other non-current assets	56.1	38.9
Total assets	$ 2,679.7	$ 2,218.7
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 803.4	$ 655.4
Accrued liabilities	340.7	284.3
Current portion of long-term debt	434.1	55.5
Total current liabilities	1,578.2	995.2
Long-term debt	375.7	685.1
Deferred income taxes	12.4	13.2
Other liabilities	161.5	90.8
Total liabilities	2,127.8	1,784.3
Commitments and Contingencies		
Shareholders Equity:		
	5.1	5.1

Redeemable convertible preferred stock, at redemption value (liquidation preference of $50.00 per share): June 29, 2007 101,949 outstanding shares December 31, 2006 101,949 outstanding shares		
Common stock, $0.01 par value, issued and outstanding shares: June 29, 2007 52,336,036 (net of 5,098,598 treasury shares) December 31, 2006 52,002,052 (net of 4,999,035 treasury shares)	0.6	0.6
Additional paid-in capital	263.0	245.5
Treasury stock	(59.2)	(53.0)
Retained earnings	320.7	238.8
Accumulated other comprehensive income (loss)	21.7	(2.6)
Total shareholders equity	551.9	434.4
Total liabilities and shareholders equity	$ 2,679.7	$ 2,218.7

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Fiscal Months Ended June 29, 2007	Six Fiscal Months Ended June 30, 2006
Cash flows of operating activities:		
Net income	$ 100.8	$ 62.9
Adjustments to reconcile net income to net cash flows of operating activities:		
Depreciation and amortization	28.7	25.5
Loss on extinguishment of debt	25.1	
Foreign currency exchange (gain) loss	1.5	(1.0)
Deferred income taxes	(4.8)	2.6
Excess tax benefits from stock-based compensation	(9.3)	(8.4)
Loss on disposal of property	0.8	0.8
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
Increase in receivables	(212.6)	(223.9)
Increase in inventories	(31.5)	(17.3)
Increase in other assets	(0.5)	(7.3)
Increase in accounts payable, accrued and other liabilities	147.9	171.2
Net cash flows of operating activities	46.1	5.1
Cash flows of investing activities:		
Capital expenditures	(45.7)	(22.6)
Proceeds from properties sold	0.6	0.4
Proceeds from acquisitions including cash acquired	17.0	
Acquisitions, net of cash acquired	(5.9)	(13.7)
Other, net	1.7	1.6
Net cash flows of investing activities	(32.3)	(34.3)
Cash flows of financing activities:		
Preferred stock dividends paid	(0.2)	(0.2)
Excess tax benefits from stock-based compensation	9.3	8.4
Proceeds from revolving credit borrowings		101.3
Repayments of revolving credit borrowings		(120.4)
Issuance of long-term debt, net of fees and expenses	318.3	
Repayments of long-term debt, including fees and expenses	(300.6)	
Proceeds of other debt	22.8	9.7
Proceeds from exercise of stock options	5.2	14.8
Net cash flows of financing activities	54.8	13.6

Effect of exchange rate changes on cash and cash equivalents	3.3	2.4
Increase (decrease) in cash and cash equivalents	71.9	(13.2)
Cash and cash equivalents beginning of period	310.5	72.2
Cash and cash equivalents end of period	$ 382.4	$ 59.0
Supplemental Information		
Cash paid during the period for:		
Income tax payments, net of refunds	$ 27.8	$ 15.8
Interest paid	$ 31.4	$ 19.4
Non-cash investing and financing activities:		
Issuance of nonvested shares	$ 3.5	$ 5.5
Entrance into capital leases	$	$ 0.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of General Cable Corporation and Subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the three and six fiscal months ended June 29, 2007, are not necessarily indicative of results that may be expected for the full year. The December 31, 2006, condensed consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures herein required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited financial statements and notes thereto in General Cable s 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2007. The Company s fiscal year end is December 31. The Company s fiscal quarters consist of 13-week periods ending on the Friday nearest to the end of the calendar months of March, June and September.

The condensed consolidated financial statements include the accounts of General Cable Corporation and its wholly-owned subsidiaries. Investments in 50% or less owned joint ventures in which the Company has the ability to exercise significant influence are accounted for under the equity method of accounting. All intercompany transactions and balances among the consolidated companies have been eliminated.

2. New Accounting Standards

In May 2007, FASB Staff Position (FSP) FIN 48-1, Definition of Settlement in FASB Interpretation No. 48, was issued. FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

In February 2007, SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, was issued. This statement provides companies an irrevocable option to carry the majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. The election of the fair value option is applied on an instrument-by-instrument basis to entire financial assets and liabilities that are individually transferable in their current form. The statement will require extensive disclosures, including reporting assets and liabilities that are measured at fair value separately on the face of the balance sheet. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 159 on its consolidated financial position, results of operations and cash flows.

In September 2006, SFAS No. 157, *Fair Value Measurements*, was issued. This statement provides a new definition of fair value that serves to replace and unify old fair value definitions so that consistency on the definition is achieved, and the definition acts as a modification of the current accounting presumption that a transaction price of an asset or liability equals its initial fair value. The statement also provides a fair value hierarchy used to classify source information used in fair value measurements that places higher importance on market based sources. New disclosures of assets and liabilities measured at fair value based on their level in the fair value hierarchy are required by this statement. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 157 on its consolidated financial position, results of operations and cash flows.

In July 2006, FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, was issued. This Interpretation clarifies accounting for uncertain tax positions in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. This Interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of Interpretation 48 decreased shareholders equity as of January 1, 2007 by approximately $18.8 million. See Note 9 for additional information.

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

In June 2006, the FASB ratified the consensus reached in EITF 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF 06-3 requires disclosure of a company s accounting policy with respect to taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer including, but not limited to, sales, use, value added, and some excise taxes. EITF 06-3 is effective for fiscal years beginning after December 15, 2006. EITF 06-3 did not have a material impact on the Company s consolidated financial position, results of operations and cash flows, and the Company presents such taxes on a net basis.

3. Acquisitions and Divestitures

On April 30, 2007, the Company acquired Norddeutsche Seekabelwerke GmbH & Co. KG (NSW), located in Nordenham, Germany from Corning Incorporated. As a result of the transaction, the Company assumed liabilities in excess of the assets acquired, including approximately $41.9 million of pension liabilities. The Company received proceeds of $17.0 million, including $12.3 million in cash acquired.

A preliminary purchase price allocation based on the estimated fair values, or other measurements as applicable, of the assets acquired and the liabilities assumed at the date of acquisition is as follows (in millions at the prevailing exchange rate at April 30, 2007):

		As of April 30, 2007
Cash	$	12.3
Accounts receivable		21.8
Inventories		27.4
Property, plant and equipment		0.9
Other current and noncurrent assets		1.6
Total assets	$	64.0
Current liabilities	$	38.2
Other liabilities		0.9
Pension liabilities		41.9
Total liabilities	$	81.0

The Company has not yet finalized portions of the purchase price allocation, including external valuations, and certain closing settlement adjustments in establishing the acquisition opening balance sheet. These valuations are expected to be completed by the end of the second quarter of 2008, and may result in changes to the value assigned above to property, plant and equipment and result in the recognition of intangible assets.

NSW had revenues of approximately $120 million in 2006 (based on 2006 average exchange rates) and has approximately 400 employees. NSW offers complete solutions for submarine cable systems including manufacturing, engineering, seabed mapping, project management, and installation for the offshore communications, energy exploration, transmission, distribution, and alternative energy markets. Pro forma results of the NSW acquisition are not material.

On April 17, 2007, the Company formed a joint venture, Navratna Energy Cable Private Limited (Navratna Energy) with the Plaza Cable Group headquartered in New Delhi, India. The Company holds a majority interest in the joint venture, which was established in order to manufacture low and medium voltage energy cables for the Indian market. Pro forma results of the formation of the joint venture are not material.

On February 16, 2007, the Company completed the acquisition of Jiangyin Huaming Specialty Cable Co. Ltd., a manufacturer of specialty automotive and industrial cable products located in Jiangsu province, China. The new subsidiary, General Cable Jiangyin Co. Ltd. (Jiangyin), with annual revenues of approximately $12 million (based on 2006 average exchange rates), employs approximately 200 associates. Pro forma results of the Jiangyin acquisition are not material.

On August 31, 2006, the Company completed the acquisition of E.C.N. Cable Group, S.L. (ECN Cable) for a final purchase price of $13.2 million in cash and the assumption of $38.6 million in ECN Cable debt (at prevailing exchange rates during the period), including fees and expenses and net of cash acquired. ECN Cable is based in Bilbao, Spain and employs approximately 200 associates. In 2005, the last full year prior to acquisition, ECN Cable reported global sales of approximately $71.5 million (based on 2005 average exchange rates) mostly on sales of aluminum aerial high-voltage cables, low- and medium-voltage insulated power cables and bimetallic products used in electric transmission and communications. Pro forma results of the ECN Cable acquisition are not material.

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

4. Inventories

General Cable values all of its North American inventories and all of its non-North American metal inventories using the last-in first-out (LIFO) method and all remaining inventories using the first-in first-out (FIFO) method. Inventories are stated at the lower of cost or market value. The Company determines whether a lower of cost or market provision is required on a quarterly basis by computing whether inventory on hand, on a LIFO basis, can be sold at a profit based upon current selling prices less variable selling costs. No provision was required in the first six fiscal months of 2007 or 2006. In the event that a provision is required in some future period, the Company will determine the amount of the provision by writing down the value of the inventory to the level of current selling prices less variable selling costs.

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

Inventories consisted of the following (in millions):

	June 29, 2007	December 31, 2006
Raw materials	$ 94.0	$ 73.6
Work in process	128.9	94.9
Finished goods	410.5	394.6
Total	$ 633.4	$ 563.1

At June 29, 2007 and December 31, 2006, $453.1 million and $436.7 million, respectively, of inventories were valued using the LIFO method. Approximate replacement costs of inventories valued using the LIFO method totaled $712.5 million at June 29, 2007 and $632.3 million at December 31, 2006.

If in some future period, the Company was not able to recover the LIFO value of its inventory when replacement costs were lower than the LIFO value of the inventory, the Company would be required to take a charge to recognize in its income statement an adjustment of LIFO inventory to market value.

The Company has consignment inventory at certain of its customer locations for purchase and use by the customer or other parties. General Cable retains title to the inventory and records no sale until it is ultimately sold either to the customer storing the inventory or to another party. In general, the value and quantity of the consignment inventory is verified by General Cable through either cycle counting or annual physical inventory counting procedures. At June 29, 2007 and December 31, 2006, the Company had approximately $43.1 million and $33.4 million, respectively, of consignment inventory at locations not operated by the Company with approximately 87% and 79%, respectively, of the consignment inventory being located throughout the United States and Canada.

5. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Costs assigned to property, plant and equipment relating to acquisitions are based on estimated fair values at that date. Depreciation is provided using the straight-line method over the estimated useful lives of the assets: buildings, from 15 to 50 years; and machinery, equipment and office furnishings, from 2 to 15 years. Leasehold improvements are depreciated over the life of the lease unless acquired in a business combination, in which case the leasehold improvements are amortized over the shorter of the useful life of the assets or a term that includes the reasonably assured life of the lease.

Property, plant and equipment consisted of the following (in millions):

	June 29, 2007	Dec. 31, 2006
Land	$ 41.1	$ 39.1
Buildings and leasehold improvements	84.5	76.0
Machinery, equipment and office furnishings	563.2	518.4
Construction in progress	29.0	19.5
Total gross book value	717.8	653.0
Less accumulated depreciation	(269.6)	(236.3)
Total net book value	$ 448.2	$ 416.7

Depreciation expense for the three and six fiscal months ended June 29, 2007 was $11.7 million and $25.6 million, respectively. Depreciation expense for the three and six fiscal months ended June 30, 2006 was $10.8 million and

$22.2 million, respectively.

The Company periodically evaluates the recoverability of the carrying amount of long-lived assets (including property, plant and equipment and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. The Company evaluates events or changes in circumstances based mostly on actual historical operating results, but business plans, forecasts, general and industry trends, and anticipated cash flows are also considered. Impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset

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

exceeds its fair value and are recognized in earnings. The Company also continually evaluates the estimated useful lives of all long-lived assets and, when warranted, revises such estimates based on current events. No material impairment charges occurred during the three and six fiscal months ended June 29, 2007 and June 30, 2006.

6. Goodwill and Other Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but are reviewed at least annually for impairment. If the carrying amount of goodwill or an intangible asset with an indefinite life exceeds its fair value, impairment loss is recognized in the amount equal to the excess. There was no goodwill or significant intangible assets with indefinite lives on the Company s balance sheet as of June 29, 2007 or December 31, 2006.

Intangible assets that are not deemed to have indefinite lives are amortized over their useful lives. There were no significant amortizable intangible assets on the Company s balance sheet at June 29, 2007 or December 31, 2006. No significant amortization expense was recognized during the three and six fiscal months ended June 29, 2007 and June 30, 2006 and no significant amortization expense is anticipated to be recognized on current intangible assets in the next five years.

7. Long-Term Debt

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

	June 29, 2007	December 31, 2006
9.5% Senior Notes due 2010	$ 4.8	$ 285.0
7.125% Senior Notes due 2017	200.0	
Senior Floating Rate Notes	125.0	
0.875% Convertible Notes	355.0	355.0
Spanish Term Loan	31.9	33.9
Capital leases	3.8	4.3
Other	89.3	62.4
Total debt	809.8	740.6
Less current maturities	434.1	55.5
Long-term debt	$ 375.7	$ 685.1
Weighted average interest rates on the above outstanding balances were as follows:		
9.5% Senior Notes due 2010	9.5%	9.5%
7.125% Senior Notes due 2017	7.125%	%
Senior Floating Rate Notes	7.725%	%
0.875% Convertible Notes	0.875%	0.875%
Spanish Term Loan	4.6%	4.6%
Capital leases	6.5%	