GENERAL CABLE CORP /DE/
Form 10-Q
August 06, 2010

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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 July 2, 2010

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 has submitted electronically and posted on its corporate Web site, 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 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, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company 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 July 30, 2010
Common Stock, $0.01 per value	52,112,855

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	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Net sales	$ 1,208.6	$ 1,133.1	$ 2,306.6	$ 2,174.4
Cost of sales	1,063.9	989.4	2,024.3	1,958.6
Gross profit	144.7	143.7	282.3	215.8
Selling, general and administrative expenses	84.9	81.7	165.2	176.7
Operating income	59.8	62.0	117.1	39.1
Other income (expense)	(3.0)	6.6	(39.5)	10.1
Interest income (expense):				
Interest expense	(18.8)	(22.1)	(37.8)	(44.6)
Interest income	1.1	0.6	2.2	1.8
	(17.7)	(21.5)	(35.6)	(42.8)
Income before income taxes	39.1	47.1	42.0	6.4
Income tax (provision) benefit	(14.1)	(13.1)	(22.4)	1.8
Equity in earnings of affiliated companies	0.3	0.2	0.6	0.3
Net income including noncontrolling interest	25.3	34.2	20.2	8.5
Less: preferred stock dividends	0.1	0.1	0.2	0.2
Less: net income attributable to noncontrolling interest	1.4	2.8	4.0	4.2
Net income attributable to Company common shareholders	$ 23.8	$ 31.3	$ 16.0	$ 4.1
Earnings per share				

Earnings per common share-basic	$	0.46	$	0.60	$	0.31	$	0.08
Weighted average common shares-basic		52.1		52.0		52.1		51.9
Earnings per common share-assuming dilution	$	0.45	$	0.59	$	0.31	$	0.08
Weighted average common shares-assuming dilution		53.1		52.8		53.1		52.8

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)

	July 2, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 350.3	$ 499.4
Receivables, net of allowances of $18.6 million at July 2, 2010 and $21.9 million at December 31, 2009	948.6	903.6
Inventories, net	1,136.5	1,002.4
Deferred income taxes	58.3	52.6
Prepaid expenses and other	74.4	94.7
Total current assets	2,568.1	2,552.7
Property, plant and equipment, net	972.4	1,015.3
Deferred income taxes	19.0	24.1
Goodwill	163.4	157.4
Intangible assets, net	192.0	197.6
Unconsolidated affiliated companies	9.6	10.2
Other non-current assets	52.8	56.8
Total assets	$ 3,977.3	$ 4,014.1
Liabilities and Total Equity		
Current Liabilities:		
Accounts payable	$ 810.0	$ 762.5
Accrued liabilities	320.9	361.9
Current portion of long-term debt	111.7	53.0
Total current liabilities	1,242.6	1,177.4
Long-term debt	873.8	869.3
Deferred income taxes	184.3	209.5
Other liabilities	239.0	248.1
Total liabilities	2,539.7	2,504.3
Commitments and Contingencies		
Total Equity:		
Redeemable convertible preferred stock, at redemption value (liquidation preference of $50.00 per share): July 2, 2010 76,202 shares outstanding	3.8	3.8

December 31, 2009 76,202 shares outstanding				
Common stock, $0.01 par value, issued and outstanding shares:				
July 2, 2010 52,112,855 (net of 6,206,847 treasury shares)				
December 31, 2009 52,008,052 (net of 6,187,527 treasury shares)		0.6		0.6
Additional paid-in capital		642.5		637.1
Treasury stock		(73.2)		(72.9)
Retained earnings		822.1		806.1
Accumulated other comprehensive loss		(86.9)		(8.9)
Total Company shareholders equity		1,308.9		1,365.8
Noncontrolling interest		128.7		144.0
Total equity		1,437.6		1,509.8
Total liabilities and equity	$	3,977.3	$	4,014.1

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 July 2, 2010	Six Fiscal Months Ended July 3, 2009
Cash flows of operating activities:		
Net income including noncontrolling interest	$ 20.2	$ 8.5
Adjustments to reconcile net income to net cash flows of operating activities:		
Depreciation and amortization	49.3	49.0
Amortization on restricted stock awards	2.1	2.0
Foreign currency exchange (gain) loss	39.7	(10.1)
Deferred income taxes	(20.7)	(34.4)
Excess tax benefits from stock-based compensation	(0.2)	(0.7)
Convertible debt instruments noncash interest charges	9.4	19.4
(Gain) loss on disposal of property	(1.5)	2.6
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in receivables	(89.0)	62.9
(Increase) decrease in inventories	(177.4)	146.1
(Increase) decrease in other assets	(1.6)	0.2
Increase (decrease) in accounts payable, accrued and other liabilities	47.0	(109.2)
Net cash flows of operating activities	(122.7)	136.3
Cash flows of investing activities:		
Capital expenditures	(49.8)	(87.1)
Proceeds from properties sold	3.4	0.8
Acquisitions, net of cash acquired	(9.1)	
Other	(2.2)	1.4
Net cash flows of investing activities	(57.7)	(84.9)
Cash flows of financing activities:		
Preferred stock dividends paid	(0.2)	(0.2)
Excess tax benefits from stock-based compensation	0.2	0.7
Proceeds from revolving credit borrowings	11.1	91.4
Repayments of revolving credit borrowings		(80.8)
Proceeds (repayments) of other debt	56.1	(40.5)
Dividends paid to non-controlling interest	(3.3)	
Proceeds from exercise of stock options	0.2	0.4
Net cash flows of financing activities	64.1	(29.0)

Effect of exchange rate changes on cash and cash equivalents		(32.8)		(3.7)
Decrease in cash and cash equivalents		(149.1)		18.7
Cash and cash equivalents beginning of period		499.4		282.6
Cash and cash equivalents end of period	$	350.3	$	301.3
Supplemental Information				
Cash paid during the period for:				
Income tax payments, net of refunds	$	25.1	$	(17.2)
Interest paid	$	22.5	$	23.4
Non-cash investing and financing activities:				
Issuance of nonvested shares	$	3.4	$	3.2
Capital lease obligations for new equipment	$		$	6.9

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 (General Cable or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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 GAAP 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 July 2, 2010 are not necessarily indicative of results that may be expected for the full year. The December 31, 2009 condensed consolidated balance sheet amounts are derived from the audited financial statements, as adjusted for the change in inventory accounting principle as discussed below, but do not include all disclosures herein required by GAAP. These financial statements should be read in conjunction with the audited financial statements and notes thereto in General Cable s 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010. 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.

Effective January 1, 2010, the Company changed its method of valuing all of its inventories that used the last-in, first-out (LIFO) method to the average cost method. The Company applied this change in accounting principle retrospectively to all prior periods presented herein in accordance with *ASC250 Accounting Changes and Error Corrections.* See Note 2, Accounting Standards for information on this change in accounting principle.

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. Accounting Standards

During the six fiscal months ended July 2, 2010, the Company did not change any of its existing accounting policies with the exception of the following accounting principle, which was adopted and became effective with respect to the Company on January 1, 2010:

Effective January 1, 2010, the Company changed its method of accounting for its North American inventories and non-North American metal inventories from the LIFO method to the average cost method. Inventories valued using the LIFO method represented approximately 57% of total inventories as of December 31, 2009. The Company believes the change is preferable because the average cost method improves financial reporting by better matching sales and expenses, particularly during periods of metal and petrochemical price volatility or reductions in inventory balances and enhances comparability with industry peers. The Company applied this change in accounting principle retrospectively to all prior periods presented herein in accordance with *ASC250 Accounting Changes and Error Corrections.* As a result of the accounting change, retained earnings as of January 1, 2009 increased from $597.9 million to $749.7 million. The Company converted its accounting systems on January 1, 2010 which effectively eliminated its LIFO pools prospectively.

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

As a result of the retrospective application of this change in accounting principle, certain amounts in the Company s three and six months ended July 3, 2009 condensed consolidated statement of operations were adjusted as presented below:

	Three Fiscal Months Ended July 3, 2009		
(in millions, except per share data)	As Originally Reported	Adjustments	As Adjusted
Cost of sales	$ 956.4	$ 33.0	$ 989.4
Operating income	95.0	(33.0)	62.0
Provision for income taxes	(24.5)	11.4	(13.1)
Net income including noncontrolling interest	55.8	(21.6)	34.2
Net income attributable to Company common shareholders	52.9	(21.6)	31.3
Earnings per common share basic	1.02	(0.42)	0.60
Earnings per common share assuming dilution	1.00	(0.41)	0.59

	Six Fiscal Months Ended July 3, 2009		
(in millions, except per share data)	As Originally Reported	Adjustments	As Adjusted
Cost of sales	$ 1,810.2	$ 148.4	$ 1,958.6
Operating income	187.5	(148.4)	39.1
(Provision) benefit for income taxes	(49.5)	51.3	1.8
Net income including noncontrolling interest	105.6	(97.1)	8.5
Net income attributable to Company common shareholders	101.2	(97.1)	4.1
Earnings per common share basic	1.95	(1.87)	0.08
Earnings per common share assuming dilution	1.92	(1.84)	0.08

The Company s December 31, 2009 consolidated balance sheet was adjusted as presented below:

	Year Ended December 31, 2009		
(in millions)	As Originally Reported	Adjustments	As Adjusted
Assets			
Inventories	$ 850.3	$ 152.1	$ 1,002.4
Deferred income taxes	114.7	(62.1)	52.6
Total assets	3,924.1	90.0	4,014.1
Liabilities and Total Equity			
Accrued liabilities	366.6	(4.7)	361.9
Deferred income taxes	208.5	1.0	209.5
Other liabilities	250.0	(1.9)	248.1
Total liabilities	2,509.9	(5.6)	2,504.3
Accumulated other comprehensive loss	(4.8)	(4.1)	(8.9)
Retained earnings	706.4	99.7	806.1
Total liabilities and equity	3,924.1	90.0	4,014.1

The condensed consolidated statement of cash flows for the six months ended July 3, 2009 was adjusted as presented below:

	Six Fiscal Months Ended July 3, 2009		
(in millions)	As Originally Reported	Adjustments	As Adjusted
Net income including noncontrolling interests	$ 105.6	$ (97.1)	$ 8.5
Deferred income taxes	16.9	(51.3)	(34.4)
Inventory impairment charges	(14.6)	14.6	
Decrease in inventories	12.3	133.8	146.1
Net cash flows of operating activities	136.3		136.3

There was no impact to net cash flows of operating activities as a result of this change in accounting policy.

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

New Accounting Standards

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires new disclosures for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. The updated guidance also clarifies existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the new Level 3 activity disclosures, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this accounting standard had no impact on the Company s Condensed Consolidated Financial Statements.

In May 2010, the FASB issued Accounting Standards Update No. 2010-19 Foreign Currency (Topic 830) Foreign Currency Issues: Multiple Foreign Currency Exchange Rates (ASU 2010-19). The amendments in this update are effective as of the announcement date of March 18, 2010. The provisions of ASU 2010-19 did not have a material effect on the financial position, results of operations or cash flows of the Company.

The FASB issued Accounting Standards Update 2010-12 (ASU 2010-12), which codifies an SEC Staff Announcement relating to accounting for the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act under ASC 740, Income Taxes. Management completed its assessment and adoption of ASU 2010-12 in the second quarter of 2010, and determined it has no material impact on the Company.

3. Acquisitions and Divestitures

General Cable actively seeks to identify key global macroeconomic and geopolitical trends in order to capitalize on expanding markets and new niche markets or exit declining or non-strategic markets in order to achieve better returns. The Company also sets aggressive performance targets for its business and intends to refocus or divest those activities which fail to meet targets or do not fit long-term strategies. No material acquisitions or divestitures were completed in the six fiscal months ended July 2, 2010 or the year ended December 31, 2009.

4. Other Income (Expense)

Other income (expense) includes foreign currency transaction gains or losses, which result from changes in exchange rates between the designated functional currency and the currency in which a transaction is denominated. During the three and six fiscal months ended July 2, 2010, the Company recorded other expense of $3.0 million and $39.5 million, respectively. During the three and six fiscal months ended July 3, 2009, the Company recorded other income of $6.6 million and $10.1 million, respectively, resulting primarily from foreign currency transaction gains and losses. The change in the six months ended 2010 compared to the six months ended 2009 is primarily the result of the Venezuelan currency devaluation, which is discussed below.

On January 8, 2010, the Venezuelan government announced the devaluation of its currency (Bolivar fuertes, BsF) and established a two-tier foreign exchange structure. The official exchange rate for essential goods (food, medicine and other essential goods) was adjusted from 2.15 BsF per U.S. dollar to 2.60 BsF per U.S. dollar. The official exchange rate for non-essential goods was adjusted from 2.15 BsF per U.S. dollar to 4.30 BsF per U.S. dollar. General Cable products are classified as non-essential. The Company remeasures the financial statements of its Venezuelan subsidiary at the rate at which the Company expects to remit dividends, which is 4.30 BsF per U.S dollar.

In the second quarter, the Company was authorized to import copper at the official exchange rate for essential goods of 2.60 BsF per U.S. dollar. For the three and six months ended July 2, 2010, the Company recorded $4.4 million in foreign exchange gains related to transactions completed at the 2.60 BsF per U.S. dollar essential rate. To date, 13.2 million pounds of copper have been approved at the essential rate. The Company purchased 3.1 million pounds of copper in the second quarter at the essential rate and anticipates purchasing up to the remaining 10.1 million pounds over the balance of the year. Copper imports prior to the approval were imported at the parallel rate. For the three and six months ended July 2, 2010, the Company recorded $2.4 million and $10.7 million in foreign exchange losses related to copper imports at the parallel rate.

On June 9, 2010, the Venezuelan government closed down the parallel market thereby declaring it illegal and imposing volume restrictions on each entity s trading activity. All other imported materials, prior to the shutdown of the parallel market, were completed at the parallel rate or the essential rate based on requests previously on file with the government. The foreign exchange gain (loss) related to the other imported materials at the parallel rate was immaterial for the three and six months ended July 2, 2010.

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

Due to the impact of the devaluation of its currency by the Venezuelan government, the Company recorded a pre-tax charge of $29.8 million in the first quarter of 2010 related primarily to the remeasurement of the local balance sheet on the date of the devaluation at the official non-essential rate. The functional currency of the Company s subsidiary in Venezuela is the U.S. dollar. Excluding the impact of the remeasurement of the local currency balance sheet as it relates to the devaluation of the Venezuelan Bolivar, other expense of $3.0 and $9.7 million primarily reflects net foreign currency transaction losses incurred in the three and six months ended July 2, 2010, which includes a $1.5 million gain and $6.1 million loss in Venezuela in those respective periods.

5. Inventories

Approximately 82% of the Company s inventories are valued using the average cost method and all remaining inventories are valued using the first-in, first-out (FIFO) method. All inventories are stated at the lower of cost or market value.

(in millions)	July 2, 2010	December 31, 2009
Raw materials	$ 191.6	$ 158.3
Work in process	183.0	154.2
Finished goods	761.9	689.9
Total	$ 1,136.5	$ 1,002.4