FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

ENCORE WIRE CORP /DE/

CIK:**850460**| IRS No.: **752274963** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-20278** | Film No.: **99574406**
SIC: **3350** Rolling drawing & extruding of nonferrous metals

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee required)

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No fee required)

For the transition period from ____________ to ___________

Commission File Number: 020278

ENCORE WIRE CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	75-2274963
(State of incorporation)	(I.R.S. Employer Identification No.)

1410 MILLWOOD ROAD MCKINNEY, TEXAS	75069
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (972) 562-9473

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF ACT:

COMMON STOCK, PAR VALUE $.01 PER SHARE
(Title of class)

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.
Yes [X] No [ ]

Aggregate market value of Common Stock held by nonaffiliates as of March 10, 1999: $ 103,097,107

Number of shares of Common Stock outstanding as of March 10, 1999: 15,628,222

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 1999 annual meeting of stockholders -- Part III

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PART I

ITEM 1. BUSINESS

GENERAL

Encore Wire Corporation is a low-cost manufacturer of copper electrical building wire and cable. The Company is a significant supplier of both residential wire for interior electrical wiring in homes, apartments and manufactured housing, as well as building wire for electrical distribution in commercial and industrial buildings. Based upon the latest available U.S. Department of Commerce data, the Company's share of the market for residential wire was approximately 15% in 1997. Based on the same information, the Company's share of the market for the commercial wire that it manufactures was approximately 8% in 1997.

The principal customers for Encore's wire are wholesale electrical distributors, which serve both the residential and commercial wire markets. The Company sells its products primarily through manufacturers' representatives located throughout the United States and, to a lesser extent, through its own direct marketing efforts.

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

The Company is a Delaware corporation with its principal executive offices and plant located at 1410 Millwood Road, McKinney, Texas 75069. Its telephone number is (972) 562-9473. As used in this Annual Report, unless otherwise required by the context, the terms "Company" and "Encore" refer to Encore Wire Corporation and its consolidated subsidiary.

RECENT EVENTS

The Company recently completed the construction of its copper rod fabrication facility and production from this facility began in June 1998. Additionally, the Company anticipates completing a new facility to manufacture polyvinyl chloride ("PVC") in the first quarter of 1999. Both facilities are located adjacent to the Company's existing plant. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Prior to completion of the new copper rod fabrication facility, the Company used copper rod purchased from others to manufacture its wire and cable products. Following completion of the new facility, the Company continued to purchase significant amounts of copper rod from others pursuant to existing annual purchase commitments. In 1999, the Company anticipates that the new copper rod fabrication facility will manufacture the majority of its copper rod requirements. The Company produces copper rod from purchased copper cathodes. The Company also reprocesses copper scrap generated by its operation and copper scrap purchased from others.

STRATEGY

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

Customer Service. Responsiveness to customers is a primary focus of Encore, with an emphasis on building and maintaining strong customer relationships. Encore seeks to establish customer loyalty by achieving a high order fill rate and rapidly handling customer inquiries, orders, shipments 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.

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

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

Incentivized Work Force. Encore's hourly manufacturing employees are eligible to receive incentive pay tied to productivity and quality standards. The Company believes that this compensation program enables the plant's manufacturing lines to attain high output and motivates manufacturing employees to continually maintain product quality. The Company also believes that its stock option plan enhances the motivation of its salaried manufacturing supervisors. The Company has coupled these incentives with a comprehensive safety program that emphasizes employee participation.

PRODUCTS

Encore offers a residential wire product line that consists primarily of NM cable and UF cable. Its commercial product line consists primarily of THHN, the most widely used type of commercial wire. Additionally, the Company manufactures other types of commercial wire products. NM, UF and THHN cable are all manufactured with copper as the conductor. The Company also purchases small quantities of other types of wire to re-sell to the customers that buy the products it manufactures. The Company maintains between 100 and 150 stock keeping units (SKUs) of residential wire and between 600 and 800 SKUs of commercial wire. The principal bases for differentiation among SKUs are product diameter, insulation, color and packaging.

Residential Wire

NM Cable. Non-metallic sheathed cable is used primarily as interior wiring in homes, apartments and manufactured housing. NM cable is composed of either two or three insulated copper wire conductors, with or without an uninsulated ground wire, all sheathed in a polyvinyl chloride ("PVC") jacket.

UF Cable. Underground feeder cable is used to conduct power underground to outside lighting and other applications remote from residential buildings. UF cable is composed of two or three PVC insulated copper wire conductors, with or without an uninsulated ground wire, all jacketed in PVC.

Commercial Wire

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

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 handling of product is substantially reduced. At the few points remaining where handling between manufacturing steps is necessary the Company has, for the most part, replaced reels with large baskets, each capable of handling approximately four times the capacity of a reel. Encore's commercial wire plant is designed to reduce product handling by integrating steps within production stages and, again, by using baskets instead of reels where feasible.

The manufacturing process for the Company's products involves up to four steps: drawing, stranding, insulating and jacketing.

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 61 individual wire strands to form a single cable. The purpose of stranding is to improve the flexibility of wire while maintaining its electrical current carrying capacity.

Insulating. Insulating is the process of extruding first PVC and then nylon over the solid or stranded wire.

Jacketing. Jacketing is the process of extruding PVC over two or more insulated conductor wires, with or without an 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.

Encore manufactures and tests all of its products in accordance with the standards of Underwriters Laboratories, Inc. ("U/L"), a nationally recognized testing and standards agency. Encore's machine operators and quality control inspectors conduct frequent product tests. At three separate manufacturing stages, the Company spark tests insulated wire for defects. The Company tests finished products for electrical continuity to insure compliance with its own quality standards and those of U/L. Encore's manufacturing lines are equipped with laser micrometers to measure wire diameter and insulation thickness while the lines are in operation. During each shift, operators take physical measurements of products, which Company inspectors randomly verify on a daily basis. Although suppliers pretest PVC and nylon compounds, the Company tests products for aging and for cracking and brittleness of insulation and jacketing. Encore sells all of its products with a one-year replacement warranty.

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. The Company now sells its products to more than 50% of the top 250 wholesale electrical distributors (by volume) in the United States according to information reported in the June 1998 issue of Electrical Wholesaling magazine. No customer accounted for more than eight percent of net sales in 1998.

Encore believes that the speed and completeness with which it fills customers' orders are crucial to its ability to expand the market share for its products. The Company also believes that, in order to reduce costs, many customers no longer maintain their own substantial warehouse 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 manufacturers' representatives and, to a lesser extent, through its own direct marketing efforts.

Encore maintains most of its product inventory at its plant in McKinney, Texas. At December 31, 1998, it held approximately 84% of its finished goods inventory at that location. In order to provide flexibility in handling customer requests for immediate delivery of the Company's products, additional product inventories are maintained at the warehouses owned and operated by independent manufacturers' representatives located throughout the United States. At December 31, 1998, additional product inventories are maintained at the warehouses of independent manufacturers' representatives located in Chattanooga, Tennessee; Detroit, Michigan; Edison, New Jersey; Louisville, Kentucky; Norcross, Georgia; Orlando, Florida; Pittsburgh, Pennsylvania; and San Francisco, California. 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 cost and availability.

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 customers' credit limits. The Company's bad debt experience was .35%, .05% and .09% of net sales in 1998, 1997 and 1996, respectively. The manufacturers' representatives have no discretion to increase customers' credit limits or to determine prices charged for the Company's products, and all sales are subject to approval by the Company.

EMPLOYEES

Encore believes that its hourly employees are highly motivated and that their motivation contributes significantly to the plant's operating efficiency. The Company attributes the motivation of these employees largely to the fact that a significant portion of their compensation can be incentive pay tied to productivity and quality standards. The Company believes that its incentive program focuses its employees on maintaining product quality.

Encore emphasizes safety to its manufacturing employees through its safety program. On a weekly basis, each team of employees meets to review safety standards and, on a monthly basis, a group of participants from each team discusses safety issues and inspects each area of the plant for compliance. In addition, the Company awards incentive bonuses to employees who achieve certain safety goals. The Company's safety program is an integral part of its general attention to cost control.

As of December 31, 1998, Encore had 427 employees, of whom 360 were paid hourly wages and were primarily engaged in the operation and maintenance of the Company's manufacturing and warehouse facility. The remainder of the Company's employees were executive, supervisory, administrative, sales and clerical personnel. The Company considers its relations with its employees to be good. The Company has no collective bargaining agreements with any of its employees.

RAW MATERIALS

The principal raw materials used by Encore in manufacturing its products are copper cathode, copper rod, copper scrap, PVC thermoplastic compounds, paper and nylon, all of which are readily available from a number of suppliers. Copper rod requirements are purchased primarily from three major producers at prices determined each month primarily based on the average daily closing prices for copper for that month, plus a negotiated premium. Upon completion of the Company's PVC manufacturing facility, the Company will purchase the raw materials necessary to manufacture various PVC thermoplastic compounds.

COMPETITION

The electrical wire and cable industry is highly competitive. The Company competes with several manufacturers of wire and cable products, which have substantially greater resources than the Company and offer more complete lines of electrical wire and cable products. The Company's competitors include Southwire Corporation, Essex International Inc. (recently acquired by Superior Telecom, Inc.) and General Cable Corporation. These competitors are vertically integrated insofar as they possess rod fabrication facilities and plastic compounding operations.

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

Competition in the electrical wire and cable industry, although intense, has been primarily from U.S. manufacturers. The Company has encountered no significant foreign competition in the production of residential or commercial wire. The Company believes this is because direct labor costs generally account for a relatively small percentage of the cost of goods sold for these products.

PATENT MATTERS

Encore neither has nor is seeking any patents, believing instead that the success of its manufacturing operations is dependent on its marketing abilities, technical competence and customer service.

ITEM 2. PROPERTIES

Encore maintains its corporate office and manufacturing plant in McKinney, Texas, approximately 35 miles north of Dallas. The Company's facilities are located on a combined site of approximately one hundred acres and consist of buildings containing approximately 745,000 square feet of floor space, of which approximately 24,000 square feet are used for office space and 721,000 square feet are used for manufacturing and warehouse operations. 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

In fiscal year 1998, a suit was filed against the Company as a result of an accident that occurred on the Company's premises. Subsequently, the Company has entered into a settlement agreement with the plaintiffs. All financial terms of the agreement are fully covered by the Company's insurance carrier. Therefore, the resolution of this matter will not have a material adverse effect on the financial position, results of operations, or cash flows of the Company

There are no other material legal proceedings pending or threatened to which the Company is a party or of which any of the Company's property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF THE COMPANY

Information regarding Encore's executive officers including their respective ages at March 19, 1999 is set forth below.

<TABLE>
<CAPTION>

Name	Age	Position with Company
<S>	<C>	<C>
Vincent A. Rego	75	Chairman of the Board of Directors, Chief Executive Officer
Donald E. Courtney	61	Vice Chairman of the Board of Directors
Daniel L. Jones	35	President, Chief Operating Officer, Member of the Board of Directors
David K. Smith	39	Vice President-- Operations
Scott D. Weaver	40	Vice President-- Finance, Treasurer and Secretary
Shirley A. Wright	57	Vice President-- Credit and Assistant Secretary

</TABLE>

Mr. Rego has been Chairman of the Board of Directors of Encore since 1989. In October 1997, Mr. Rego was named President and Chief Executive Officer. He served as President until May 1998. From 1978 until 1988, Mr. Rego served as President, Chief Executive Officer and Chairman of the Board of Directors of Capital Wire and Cable Corporation ("Capital Wire"), which was purchased by General Cable Corporation in 1988. Prior thereto, Mr. Rego was associated with predecessors of Capital Wire in various executive capacities.

Mr. Courtney was elected Vice Chairman of the Board of Directors in May 1998. Mr. Courtney has served as President and Chairman of the Board of Directors of Investech, Ltd., a private importing firm. Mr. Courtney served as President and Chairman of the Board of Directors of S.O. I. Industries, Inc. from 1982 until 1994. During such period, he was also Chairman of the Board of Directors of two subsidiaries of S.O.I Industries, Inc. Magnatech Corporation, which is engaged in videotape duplication, and Tempo Lighting, Inc., which manufactures residential lighting. Mr. Courtney retired and resigned from these positions in June 1994. Mr. Courtney was re-elected to the Board of Directors of Tempo Lighting and is also a director of F.O.M. Corporation, a manufacturer of floor cleaning equipment.

Mr. Jones was Vice President -- Sales and Marketing of Encore from 1992 to May 1997. In May 1997, Mr. Jones was named Executive Vice President of the Company, in October 1997, he was named Chief Operating Officer and, in May 1998, he was named President of the Company. He also serves as a member of the Board of Directors. From 1985 to 1988, Mr. Jones attended college while working on a part time basis for Capital Wire.

Mr. Smith has been Vice President -- Operations of Encore since 1992. From 1984 until joining the Company in 1990, Mr. Smith was employed by General Cable Corporation.

Mr. Weaver has been Vice President -- Finance, Treasurer and Secretary of Encore since 1993. From 1990 until joining the Company in 1993, Mr. Weaver was employed by the Federal Depository Insurance Corporation and was responsible for the financial oversight of assisted acquisitions of certain failed savings and loan institutions. From 1984 until 1989, Mr. Weaver was Vice President -- Finance of 2M Companies, a Dallas area investment company. From 1980 until 1984, Mr. Weaver was with the public accounting firm of Ernst & Whinney (now known as Ernst & Young LLP).

Ms. Wright has been employed by Encore since its inception and has been its Vice President -- Credit and Assistant Secretary since 1992. From 1970 until 1989, Ms. Wright was employed in various capacities by Capital Wire, most recently as Vice President -- Credit/Administration.

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

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted in the NASDAQ Stock Market's National Market under the symbol "WIRE."

The following table sets forth the high and low closing sales prices per share for the Common Stock as reported in the NASDAQ Stock Market's National Market for the periods indicated. The reported prices have been adjusted to reflect two 3-for-2 splits of the Common Stock effective August 18, 1997 and June 15, 1998.

	HIGH	LOW
1998		
First Quarter	22	16 11/16
Second Quarter	27 5/16	13 5/ 8
Third Quarter	20 1/ 2	9 1/ 4
Fourth Quarter	16 1/ 2	6 3/ 4
1997		
First Quarter	10 9/16	7 9/16
Second Quarter	13 3/4	8 1/16
Third Quarter	23 3/8	13 1/16
Fourth Quarter	25 5/8	15

On March 10, 1999, the last reported sale price of the Common Stock was $9.50 per share. As of March 10, 1999, there were 135 record holders of the Common Stock. The Company estimates that there were approximately 3,000 beneficial holders of the Common Stock.

The Company has never paid cash dividends. Management intends to retain any future earnings for the operation and expansion of the Company's business and does not anticipate paying any cash dividends in the foreseeable future. The Company's present credit arrangements restrict the Company's ability to pay cash dividends. See Note 4 of Notes to Consolidated Financial Statements.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)				
STATEMENT OF OPERATIONS DATA:					
Net sales	$ 244,044	$ 254,640	$ 179,132	$ 151,308	$ 122,698
Cost of goods sold	195,060	201,323	153,448	140,323	102,220
Gross profit	48,984	53,317	25,684	10,985	20,478
Selling, general and administrative					

Expenses	18,083	16,236	12,413	10,255	9,089
Operating income	30,901	37,081	13,271	730	11,389
Other income (expense):					
Interest and other income	145	142	92	108	55
Interest expense	(1,876)	(1,367)	(1,722)	(1,724)	(598)
Income (loss) before income taxes	29,170	35,856	11,641	(886)	10,846
Income tax (benefit) expense	11,602	14,163	4,482	(341)	4,176
Net income (loss)	$ 17,568	$ 21,693	$ 7,159	$ (545)	$ 6,670
Net income (loss) per common and common equivalent share	$ 1.07	$ 1.32	$ 0.45	$ (0.03)	$ 0.43
Weighted average common and common equivalent shares - diluted	16,388	16,482	15,867	15,900	15,377

</TABLE>

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	DECEMBER 31,				
	1998	1997	1996	1995	1994
			(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Working capital	$ 52,825	$ 43,710	$ 39,137	$ 35,560	$ 32,159
Total assets	156,948	128,755	91,068	84,655	75,094
Long-term debt, net of current portion	44,000	22,200	18,500	23,000	16,900
Stockholders' equity	83,655	70,010	46,899	40,377	41,562

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Price competition for electrical wire and cable is intense, and the Company sells its products in accordance with prevailing market prices. Copper rod, a commodity product, is the principal raw material used by the Company in manufacturing its products. Copper accounted for approximately 66.2%, 73.8%, 77.4%, 76.8% and 67.9% of the Company's cost of goods sold during fiscal 1998, 1997, 1996, 1995 and 1994, 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 copper prices in the future or the effect of fluctuations in the cost of copper on the Company's future operating results.

RESULTS OF OPERATIONS

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

<TABLE>
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YEAR ENDED DECEMBER 31,

	1998	1997	1996
Net sales	100.0%	100.0%	100.0%
Cost of goods sold:			
Copper	52.9	58.4	66.3
Other raw materials	14.3	12.3	13.6
Depreciation	2.3	1.5	1.8
Labor and overhead	11.5	7.5	7.3
LIFO adjustment	(1.6)	(1.1)	(3.3)
Lower of cost or market adjustment	0.6	0.5	0.0
	80.0	79.1	85.7
Gross profit	20.0	20.9	14.3
Selling, general and administrative expenses	7.4	6.3	6.9
Operating income	12.6	14.6	7.4
Interest expense, net	0.7	0.5	0.9
Income before income taxes	11.9	14.1	6.5
Income tax expense	4.7	5.6	2.5
Net income	7.2%	8.5%	4.0%

The following discussion and analysis relates to factors that have affected the operating results of the Company for the years ended December 31, 1998, 1997 and 1996. Reference should also be made to the consolidated financial statements and the related notes included elsewhere in this Annual Report.

Net sales were $244.0 million in 1998, compared to $254.6 million in 1997 and $179.1 million in 1996. The decrease in 1998 from 1997, which was partially offset by a 16% increase in sales volume, was due primarily to a 26% decrease in the average cost of copper, which resulted in a decrease in the average sales price per copper pound of the Company's products. The increase from 1996 to 1997 was due primarily to a 31% increase in sales volume combined with an increase in the average cost of copper, which resulted in an increase in the average sales price per copper pound of the Company's products. Sales volume increases in 1997 were due to several factors, including increases in customer acceptance and product availability. In 1998, the Company continued to expand sales to some existing customers and increased the number of customers to which it sold its products. The Company currently sells its products to more than 50% of the top 250 wholesale electrical distributors (by volume) in the United States, as reported in the June 1998 issue of Electrical Wholesaling magazine. The average sales price per copper pound of product sold was $1.60 in 1998 compared to $1.93 in 1997 and $1.79 in 1996. The changes each year are primarily a result of changing price competition and changing copper raw material prices. The average price per copper pound paid by the Company in 1998, 1997 and 1996 was $.81, $1.09 and $1.12, respectively.

Cost of goods sold was $195.0 million in 1998, compared to $201.3 million in 1997 and $153.4 million in 1996. Copper costs, which had increased to $148.6 million in 1997 from $118.7 million in 1996 decreased to $129.3 million in 1998. The average cost per copper pound purchased was $.81 in 1998, $1.09 in 1997 and $1.12 in 1996. Copper costs as a percentage of net sales decreased to 52.9% in 1998 from 58.4% in 1997 and 66.3% in 1996. The decrease as a percentage of net sales was due primarily to an increasing differential between what the Company pays per pound of copper purchased and the Company's net sales price per copper pound sold. This differential decreased slightly in 1998 compared to 1997. However, the percentage decreased due to a smaller percentage decrease in the sales price per copper pound compared to the percentage decrease of the Company's average cost of copper. This differential decreased in 1998 primarily due to competitive pricing for the Company's products. It increased during 1997 primarily because of improved pricing for the Company's products during that year. Other raw material costs as a percentage of net sales were 14.3%, 12.3% and 13.6% in 1998, 1997 and 1996, respectively. The increase from 1997 to 1998 was due primarily to the Company's sales price per copper pound sold increasing (as discussed above) while the cost of other raw materials per pound of copper sold remained relatively constant. The decrease from 1996 to 1997 was due primarily to the Company's sales price per copper pound sold increasing (as discussed above) while the cost of other raw materials per pound of copper sold decreased slightly. This decrease was primarily caused by increased sales of the Company's commercial wire product line in 1997 as a percentage of total sales compared to 1996, which product line, as compared to residential wire, requires fewer raw materials (other than copper). Depreciation, labor and overhead costs as a percentage of net sales were 13.8% in 1998, compared to 9.0% in 1997 and 9.1% in 1996. These increases in 1998, 1997 and 1996 were due primarily to expenses relating to increasing the Company's production capacity and vertical integration projects (copper rod fabrication facility and PVC manufacturing facility). Additionally, these expense items increased in 1998, as a percentage of sales, due to a decrease in the sales price per copper pound sold (as discussed above) in 1998 combined with an increase in the overhead and depreciation per copper pound sold.

Inventories are stated at the lower of cost, using the last in, first out (LIFO) method, or market. The Company changed its method of accounting for inventories to the LIFO method on January 1, 1992. The Company believes that the LIFO method more fairly presents its results of operations by matching current costs with current revenues. As permitted by 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 quarterly LIFO adjustment to adjust total inventory and cost of goods sold to LIFO. As a result of decreases in the cost of copper during 1996, the value of all inventory at December 31, 1996 using the LIFO method was less than its FIFO value by approximately $122,000, resulting in a corresponding decrease in the cost of goods sold of $6,025,000, including the partial reversal of the $6,147,000 difference at December 31, 1995. At December 31, 1996, LIFO value did not exceed the market value of the inventory, therefore, no lower of cost or market adjustment was necessary. As a result of further decreases in the cost of copper during 1997 (specifically at the end of 1997), the value of all inventory at December 31, 1997 using the LIFO method was greater than its FIFO value by approximately $2,629,000, resulting in a corresponding decrease in the cost of goods sold of $2,751,000, including the reversal of the $122,000 difference at December 31, 1996. At December 31, 1997, LIFO value exceeded the market value of the inventory by $1,278,000, thereby necessitating a $1,278,000 lower of cost or market decrease in the value of inventory and a corresponding increase in the cost of goods sold. The net of these two adjustments decreased cost of goods sold by $1,473,000. As a result of further decreases in the cost of copper during 1998, the value of all inventory at December 31, 1998 using the LIFO method was greater than its FIFO value by approximately $6,637,000, resulting in a corresponding decrease in the cost of goods sold of $4,008,000. At December 31, 1998, LIFO value exceeded the market value of the inventory by $2,625,000, thereby necessitating an additional $1,347,000 lower of cost or market decrease in the value of inventory and a corresponding increase in the cost of goods sold. The net of these two adjustments decreased cost of goods sold by $2,661,000. Future reductions in the price of copper could require the Company to record additional lower of cost or market adjustments against the related inventory balance. Additionally, a reduction in the quantity of inventory could cause copper that is carried in inventory at costs different from the cost of copper in the period in which the reduction occurs to be included in cost of goods sold for that period at the different price.

Gross profit decreased to $48.9 million, or 20.0% of net sales, in 1998 from $53.3 million, or 20.9% of net sales, in 1997 and $25.7 million, or 14.3% of net sales, in 1996. The changes in gross profit were due to the factors discussed above.

General and administrative expenses were $5.0 million in 1998, $3.8 million in 1997 and $2.9 million in 1996. As a percentage of net sales, general and administrative expenses were 2.0% in 1998, 1.5% in 1997 and 1.6% in 1996. In 1998, general and administrative costs increased due to increased costs relating to higher sales volumes. These higher costs increased as a percentage of sales due to a lower sales price per copper pound as discussed above. Selling expenses, which include freight and sales commissions, were $13.0 million in 1998, $12.4 million in 1997 and $9.5 million in 1996. As a percentage of net sales, selling expenses were 5.3% in 1998, 4.9% in 1997 and 5.3% in 1996. The changes in these items, as a percentage of sales, is due primarily to freight charges remaining relatively constant per copper pound of product shipped while the sales price per copper pound sold decreased from 1997 to 1998 and increased from 1996 to 1997.

Interest expense increased to $1,876,000 in 1998 from $1,367,000 in 1997, which decreased from $1,722,000 in 1996. The increase in 1998 was due primarily to the increase in debt relating to capital expenditures during 1998 including the construction of the Company's copper rod fabrication facility and

PVC manufacturing facility. Additionally, the Company repurchased treasury stock during 1998, using debt to finance the acquisition. The decrease in 1997 was due primarily to the capitalization of $374,000 of interest expense relating to the construction of the Company's copper rod fabrication facility and distribution center. Without this capitalization of interest, the interest expense incurred by the Company in 1997 would have been relatively constant with the interest expense incurred in 1996.

The Company's effective tax rate remained constant in 1998 at 39.5%. It increased in 1997 to 39.5% due to the Company's increased net income, which placed the Company in a higher statutory tax bracket.

As a result of the foregoing factors, the Company's net income was $17.6 million in 1998, $21.7 million in 1997 and $7.1 million in 1996.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes the Company's cash flow activities.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
		(In thousands)	
<S>	<C>	<C>	<C>
Net income	$ 17,567	$ 21,693	$ 7,159
Adjustments to reconcile net income to net Cash provided by (used in) operating Activities:			
Depreciation and amortization	5,937	4,060	3,396
Other non-cash items	2,760	469	1,192
Increase in accounts receivable, Inventory and other assets	(2,226)	(14,709)	(6,928)
Increase in trade accounts payable, Accrued liabilities and other liabilities	(8,580)	10,225	3,428
Net cash provided by operating Activities	15,458	21,738	8,247
Investing activities:			
Purchases of property, plant and Equipment (net)	(33,068)	(26,952)	(2,840)
Financing activities:			
Increase (decrease) in indebtedness, net	21,800	3,700	(4,500)
Issuances of common stock	635	1,517	34
Purchase of treasury stock	(4,558)	(99)	(671)
Net cash (used in) provided by financing activities	17,877	5,118	(5,137)
Net increase (decrease) in cash	$ 267	$ (96)	$ 270

</TABLE>

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. Therefore, the Company's liquidity needs have generally consisted of operating capital necessary to finance these receivables and inventory. Capital expenditures have historically been necessary to expand the production capacity of the Company's manufacturing operations. The Company has satisfied its liquidity and capital expenditure needs with cash generated from operations, borrowings under its revolving credit facilities and sales of its common stock.

Effective June 9, 1997, the Company completed an unsecured loan facility with a group of banks (the "Financing Agreement"). The Financing

Agreement has been amended four times since June 9, 1997 to change, among other items, the maximum borrowing amount, the term of the loan covenants and the allowable purchases of the Company's common stock. The Financing Agreement provides for maximum borrowings of the lesser of $65.0 million or the amount of eligible accounts receivable plus the amount of eligible finished goods and raw materials, less any available reserves established by the banks. The calculated maximum borrowing amount available at December 31, 1998, as computed under the Financing Agreement, was $53.3 million. The Financing Agreement is unsecured and contains customary covenants and events of default. The Company was in compliance with these covenants, as amended, as of December 31, 1998. Pursuant to the Financing Agreement, the Company is prohibited from declaring, paying or issuing cash dividends. At December 31, 1998, the balance outstanding under the Financing Agreement was $44.0 million. Amounts outstanding under the Financing Agreement are payable on May 31, 2001 with interest due quarterly based on the bank's prime rate or LIBOR Rate options, at the Company's election.

In March 1995, the Board of Directors authorized the Company to purchase up to 900,000 shares, or approximately 5.6%, of its outstanding common stock dependent upon market conditions. Purchases made pursuant to this common stock authorization are made in the open market or through privately negotiated transactions. As of December 31, 1998, the Company had repurchased an aggregate of 702,575 shares of its common stock in the open market at a weighted average price of $8.77 per share. The Financing Agreement allows the Company to purchase up to 900,000 shares with an aggregate price of these shares not to exceed $11,300,000. The Company purchased 402,200 shares under this authorization during 1998.

Cash provided by operations decreased to $15.5 million in 1998 from $21.7 million 1997 compared to $8.2 million in 1996. The changes from 1996 to 1998 were due primarily to changes in the Company's net income. Cash used in investing activities increased to $33.1 million in 1998 from $26.9 million in 1997 and $2.8 million in 1996. These funds were used primarily to increase the Company's production capacity, including the construction of the Company's new copper rod fabrication facility, PVC manufacturing facility and distribution center. The cash used in/provided by financing activities was primarily due to increases and decreases in the amount of indebtedness provided by additional borrowings and repayments on the Company's loan facility. Cash used in/provided by financing activities was reduced by $4.6 million in 1998, $99,000 in 1997 and $671,000 in 1996, as a result of the purchase of treasury stock. Cash used in/provided by financing activities increased by $635,000 in 1998, $1.5 million in 1997 and $33,000 in 1996 as the result of the issuance of common stock.

During 1999, the Company expects its capital expenditures will consist of additional manufacturing equipment for its residential and commercial wire operations. In addition, the Company plans to complete its PVC manufacturing facility. See "Item 1. Business." The total capital expenditures associated with the PVC manufacturing facility completion and the additional manufacturing equipment are estimated not to exceed $7.5 million. The Company also expects its working capital requirements to increase during 1999 as a result of continued increases in sales. Moreover, the Company expects that the inventory levels necessary to support sales of commercial wire will continue to be greater than the levels necessary to support comparable sales of residential wire. The Company believes that the cash flow from operations and the financing that it expects to receive from its banks will satisfy working capital and capital expenditure requirements for the next twelve months.

IMPACT OF YEAR 2000

The year 2000 issue is the result of computer programs being written to use two digits rather than four digits to define the applicable year. Any computer program that has date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a temporary inability to process transactions or engage in normal manufacturing or other business activities.

The Company has completed its initial review of the impact of the year 2000 issue on the Company's information systems and support systems, including hardware and software used in the manufacture and distribution of its products. Based on the Company's initial inventory and assessment of its systems, the Company does not believe that any modifications to or replacement of its information technology or other systems are necessary as a result of the year 2000 problem. Unrelated to any potential year 2000 issues, the Company is in the process of replacing its financial accounting software, and the Company expects the new system to be operational by year-end and to be fully Year 2000 compliant.

The Company has not initiated formal communications with some of its significant third party suppliers and customers to determine the extent to which the Company may be vulnerable to their failure to correct their own year 2000 issues. The Company intends to continue such communications in 1999. The Company does not participate in any electronic data interchange with any of its principal vendors and only participates with a limited number of customers. As a result, the Company's vulnerability to Year 2000 failures should be limited. The Company believes its significant trading partners have addressed year 2000 issues, but their failure to do so could have a material adverse effect on the Company's operations.

A contingency plan has not been developed for dealing with the most reasonably likely year 2000 worst case scenario, and such scenario has not been clearly identified. The Company intends to review in the Spring of 1999 the

extent to which contingency plans may be required for any third parties that fail to achieve year 2000 compliance. The Company currently plans to complete such analysis and implement any necessary contingency plans by December 31, 1999.

The Company believes that the cost of its year 2000 identification, assessment, remediation and testing efforts, will not exceed $100,000, and, to date, the Company has incurred costs significantly less than that amount in connection with such efforts. The costs and timing of such efforts by the Company are based on management's current evaluation using available information. Factors that might cause material changes include, but are not limited to availability of key year 2000 personnel, the readiness of third parties and the Company's ability to respond to unforeseen year 2000 complications.

While the Company believes its efforts to address the year 2000 issue will allow the Company to successfully avoid any material adverse effect on the Company's operations or financial condition, it recognizes that failure by the Company, its customers or vendors to resolve adequately the year 2000 problem on a timely basis could, in a most reasonably likely worst case scenario, limit its ability to manufacture and distribute its products and process its daily business transactions for a period of time, especially if such failure is coupled with infrastructure failures.

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 are fluctuations in the economy and in the level of activity in the building and construction industry, demand for the Company's products, the impact of price competition and fluctuations in the price of copper.

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 and copper rod primarily from three major producers at prices determined each month based on the average daily 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. In June 1997, the Company completed an unsecured loan facility with a group of banks. The amounts outstanding under the Financing Agreement are payable on May 31, 2001, with interest due quarterly based on the bank's prime rate or LIBOR rate options, at the Company's election. At December 31, 1998, the balance outstanding under the Financing Agreement was $44.0 million, and the average interest rate paid under the facility was 6.365%. There is inherent rollover risk for borrowings as they 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.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS
ENCORE WIRE CORPORATION

We have audited the accompanying consolidated balance sheets of Encore Wire Corporation (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. 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 generally accepted auditing standards. 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, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

January 22, 1999
Dallas, Texas

ENCORE WIRE CORPORATION
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31 1998	1997
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,431,536	$ 1,164,676

Accounts receivable, net of allowance for losses of $500,000 and $675,000 in 1998 and 1997, respectively	37,945,765	44,302,107
Inventories (Note 2)	37,859,917	30,596,731
Prepaid expenses and other	246,899	158,903
Current taxes receivable	581,783	--
Deferred income taxes (Note 5)	--	793,000
Total current assets	78,065,900	77,015,417
Property, plant, and equipment - at cost:		
Land	3,568,329	1,747,308
Construction-in-progress	12,296,115	19,257,517
Buildings and improvements	25,363,242	8,793,423
Machinery and equipment	56,873,800	35,497,584
Furniture and fixtures	1,212,235	829,340
	99,313,721	66,125,172
Accumulated depreciation and amortization	(20,653,774)	(14,796,683)
	78,659,947	51,328,489
Other assets	222,535	411,095
Total assets	$ 156,948,382	$ 128,755,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 16,847,937	$ 22,716,079
Accrued liabilities (Note 3)	7,876,908	8,911,608
Current income taxes payable	--	1,677,402
Current deferred income taxes (Note 5)	516,000	--
Total current liabilities	25,240,845	33,305,089
Noncurrent deferred income taxes (Note 5)	4,052,934	3,239,844
Long-term note payable (Note 4)	44,000,000	22,200,000
Stockholders' equity (Note 4 and 6):		
Convertible preferred stock, $.01 par value:		
Authorized shares - 2,000,000		
Issued and outstanding shares - none		
Common stock, $.01 par value:		
Authorized shares - 20,000,000		
Issued and outstanding shares - 16,304,129 in 1998 and 10,798,385 in 1997	163,041	107,983
Additional paid-in capital	30,591,061	30,010,051
Treasury Stock, at cost - 702,575 in 1998 and 300,375 in 1997	(6,166,525)	(1,608,390)
Retained earnings	59,067,026	41,500,424
Total stockholders' equity	83,654,603	70,010,068
Total liabilities and stockholders' equity	$ 156,948,382	$ 128,755,001

</TABLE>

See accompanying notes.

ENCORE WIRE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
Net sales	$ 244,044,135	$ 254,639,993	$ 179,131,812
Cost of goods sold	195,059,722	201,323,137	153,448,265

Gross profit	48,984,413	53,316,856	25,683,547
Selling, general, and administrative expenses	18,083,414	16,235,787	12,412,537
Operating income	30,900,999	37,081,069	13,271,010
Other income (expense):			
Interest and other income	145,056	141,836	92,233
Interest expense	(1,876,315)	(1,367,068)	(1,722,445)
Income before income taxes	29,169,740	35,855,837	11,640,798
Income tax expense (Note 5)	11,602,400	14,163,062	4,481,707
Net income	$ 17,567,340	$ 21,692,775	$ 7,159,091
Weighted average common shares - basic (Note 8)	15,843,591	15,791,856	15,772,869
Basic earnings per common share	$ 1.11	$ 1.37	$ .45
Weighted average common shares - diluted (Note 8)	16,388,259	16,481,925	15,867,240
Diluted earnings per common share	$ 1.07	$ 1.32	$ .45

</TABLE>

See accompanying notes.

ENCORE WIRE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	RETAINED EARNINGS	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	7,104,417	$ 71,044	$28,495,115	$ (838,083)	$12,648,894	$40,376,970
Proceeds from exercise of stock options	8,500	85	33,795	--	--	33,880
Purchase of treasury stock	--	--	--	(670,928)	--	(670,928)
Net income	--	--	--	--	7,159,091	7,159,091
Balance at December 31, 1996	7,112,917	71,129	28,528,910	(1,509,011)	19,807,985	46,899,013
Proceeds from exercise of stock options	98,520	985	810,547	--	--	811,532
Purchase of treasury stock	--	--	--	(99,379)	--	(99,379)
Tax benefit on exercise of stock options	--	--	706,463	--	--	706,463
Stock split	3,586,948	35,869	(35,869)	--	(336)	(336)
Net income	--	--	--	--	21,692,775	21,692,775
Balance at December 31, 1997	10,798,385	107,983	30,010,051	(1,608,390)	41,500,424	70,010,068
Proceeds from exercise of stock options	80,425	804	412,983	--	--	413,787
Purchase of treasury stock	--	--	--	(4,558,135)	--	(4,558,135)
Tax benefit on exercise of stock options	--	--	222,281	--	--	222,281
Stock split	5,425,319	54,254	(54,254)	--	(738)	(738)
Net income	--	--	--	--	17,567,340	17,567,340
Balance at December 31, 1998	16,304,129	$ 163,041	$30,591,061	$(6,166,525)	$59,067,026	$83,654,603

</TABLE>

See accompanying notes.

ENCORE WIRE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income	$ 17,567,340	$ 21,692,775	$ 7,159,091
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,937,397	4,060,125	3,396,015
Provision for bad debts	650,000	340,869	227,000
Deferred income taxes	2,122,090	127,844	929,000
(Gain) loss on disposal of assets	(11,942)	2,154	36,110
Changes in operating assets and liabilities:			
Accounts receivable	5,706,342	(11,411,105)	(5,271,078)
Inventories	(7,263,186)	(3,348,802)	(2,699,142)
Prepaid expenses and other	(87,996)	50,821	(331)
Current income taxes receivable	(581,783)	--	1,042,460
Trade accounts payable	(6,531,734)	7,822,083	(14,838)
Accrued liabilities	(371,108)	2,082,636	2,083,462
Current income taxes payable	(1,677,402)	318,539	1,358,863
Net cash provided by operating activities	15,458,018	21,737,939	8,246,612
INVESTING ACTIVITIES			
Purchases of property, plant, and equipment	(33,302,363)	(26,621,051)	(2,946,177)
Increase in long term investments	--	(4,180)	(16,000)
(Increase) decrease in deposits	188,560	(343,415)	--
Proceeds from sale of equipment	45,450	16,000	122,200
Net cash used in investing activities	(33,068,353)	(26,952,646)	(2,839,977)
FINANCING ACTIVITIES			
Increase in long-term note payable	21,800,000	3,700,000	--
Repayment of note payable	--	--	(4,500,000)
Proceeds from issuance of common stock, net	635,330	1,517,659	33,880
Purchase of treasury stock	(4,558,135)	(99,379)	(670,928)
Net cash (used in) provided by financing activities	17,877,195	5,118,280	(5,137,048)
Net increase (decrease) in cash	266,860	(96,427)	269,587
Cash at beginning of year	1,164,676	1,261,103	991,516
Cash at end of year	$ 1,431,536	$ 1,164,676	$ 1,261,103

</TABLE>

See accompanying notes.

ENCORE WIRE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998

1. SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Encore Wire Corporation (the Company) conducts its business in one segment - the manufacture of copper electrical wire, principally NM cable, for use primarily as interior wiring in homes, apartments, and manufactured housing, and THHN cable, for use primarily as wiring in commercial and industrial buildings. The Company sells its products primarily through approximately 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 commercial and residential wire are wholesale electrical distributors.

Copper, a commodity product, is the principal raw material used in the Company's manufacturing operations. Copper accounted for approximately 66.2%, 73.8%, and 77.4% of its cost of goods sold during 1998, 1997, and 1996, 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 copper prices in the future or the effect of fluctuations on the cost of copper on the Company's future operating results. Future reductions in the price of copper could require the Company to record a lower of cost or market adjustment against the related inventory balance.

PRINCIPLES OF CONSOLIDATION

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

Certain prior year balances have been re-classed to conform to current year presentation.

USE OF ESTIMATES

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

FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISK

Cash, accounts receivable, trade accounts payable, accrued liabilities, and notes payable are stated at expected settlement amounts which approximate fair value.

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 charged off account's receivable of $859,830 and $140,022 in 1998 and 1997, respectively.

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.

INVENTORIES

Inventories are stated at the lower of cost using the last-in, first-out (LIFO) method or market.

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 30 years; machinery and equipment, 3 to 10 years; and furniture and fixtures, 3 to 5 years. Accelerated cost recovery methods are used for tax purposes.

EARNINGS PER SHARE

Effective December 15, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Income 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 and common stock warrants, which are common stock equivalents, are calculated using the treasury stock method.

INCOME TAXES

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

2. INVENTORIES

Inventories consist of the following at December 31:

	1998	1997
Raw materials	$ 6,152,026	$ 2,299,301
Work-in-process	4,339,609	6,127,977
Finished goods	23,355,863	20,818,224
	33,847,498	29,245,502
Adjust to LIFO cost	6,637,212	2,628,860
Lower of cost or market adjustment	(2,624,793)	(1,277,631)
	$ 37,859,917	$ 30,596,731

3. ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	1998	1997
Sales volume discounts payable	$5,073,488	$6,303,949
Property taxes payable	1,015,951	680,591
Commissions payable	349,297	501,385
Other accrued liabilities	1,438,171	1,425,683
	$7,876,908	$8,911,608

4. LONG-TERM NOTE PAYABLE

The Company amended its unsecured loan facility (Facility) with a bank as of August 28, 1998, to provide for a

maximum borrowings of the lesser of $65.0 million or the amount of eligible accounts receivable plus the amount of eligible finished goods and raw materials inventories as defined in the Financing Agreement (approximately $53.3 million at December 31, 1998). The Facility is unsecured and contains customary covenants and conditions providing for events of default.

The Company is prohibited from declaring, paying, or issuing cash dividends. At December 31, 1998, the balance outstanding under the revolving credit facility was $44.0 million. Amounts outstanding under the facility are payable on May 31, 2001, with interest due quarterly based on the bank's prime rate, LIBOR or CD Rate options, at the Company's election (average interest rate at December 31, 1998 was 6.365%). Each of the interest rate options includes a premium dependent upon the Company's financial performance.

The Company paid interest totaling $1,957,269, $1,761,660, and $1,730,525 in 1998, 1997, and 1996, respectively. The Company capitalized $570,136 and $373,823 of interest in 1998 and 1997, respectively, relating to the construction of the distribution center, rod mill, and plastics mill.

5. INCOME TAXES

The provisions for income tax expense are summarized as follows:

	1998	1997	1996
Current:			
Federal	$ 8,181,896	$12,108,230	$ 3,252,757
State	1,298,414	1,926,988	404,950
Deferred	2,122,090	127,844	824,000
	$11,602,400	$14,163,062	$ 4,481,707

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

	1998	1997	1996
Amount computed using the statutory rate	$10,209,409	$12,549,543	$ 3,957,871
State income taxes	1,011,677	1,497,702	459,950
Change in tax rate	--	68,000	--
Other items	381,314	47,817	63,886
	$11,602,400	$14,163,062	$ 4,481,707

5. INCOME TAXES (CONTINUED)

The tax effect of each type of temporary difference and carry forward giving rise to the deferred tax asset and liability at December 31, 1998 and 1997, is as follows:

	DEFERRED TAX ASSET (LIABILITY)			
	1998		1997	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Depreciation and amortization	$ --	$(4,052,934)	$ --	$(3,239,844)
Inventory	(1,009,000)	--	125,000	--
Allowance for doubtful accounts	193,000	--	260,000	--
Accrued expenses	196,000	--	200,000	--
Uniform capitalization rules	146,000	--	219,000	--
Other	(42,000)	--	(11,000)	--
	$ (516,000)	$(4,052,934)	$ 793,000	$(3,239,844)

The Company made income tax payments of $11,521,000 in 1998, $13,010,000 in 1997, and $1,151,000 in 1996.

6. STOCK OPTIONS

The Company has a stock option plan for employees that provides for the granting of stock options and authorizes the issuance of common stock upon the exercise of such options for up to 1,741,500 shares of common stock. The stock options vest over five years and expire ten years from grant date. The following summarizes activity in the stock option plan for the years ended December 31, 1998, 1997, and 1996:

	SHARES UNDER OPTIONS	PRICE PER SHARE	AGGREGATE OPTION PRICE
Options outstanding at December 31, 1995	945,900	$ .33-6.22	$ 4,292,919
Options granted	143,325	4.17-4.55	613,575
Options exercised	(19,125)	.33-3.06	(33,880)
Options canceled	(27,900)	4.17-6.22	(144,000)
Options outstanding at December 31, 1996	1,042,200	.33-6.22	4,728,614
Options granted	178,500	8.33-17.00	1,945,500
Options exercised	(193,545)	.33-6.22	(811,517)
Options canceled	(89,820)	3.06-8.45	(537,850)
Options outstanding at December 31, 1997	937,335	.33-17.00	5,324,747
OPTIONS GRANTED	109,100	9.00-17.33	1,156,748
OPTIONS EXERCISED	(106,585)	0.33-8.33	(621,746)
OPTIONS CANCELED	(14,050)	6.22-17.00	(4,590)
OPTIONS OUTSTANDING AT DECEMBER 31, 1998	925,800	$ .33-17.33	$ 5,855,159

At December 31, 1998, 622,955 options are currently exercisable and 925,800 common shares are reserved for future issuance.

The Company has elected to continue to follow the expense recognition criteria in Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." Therefore, the Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," will have no effect on the Company's financial statements.

As required by the Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123), pro forma information regarding net income and income per share has been determined as if the Company had accounted for employee stock options granted subsequent to December 31, 1994, under the fair value method provided for under FAS 123. The fair value for the stock options granted to directors, officers, and key employees of the Company on or after January 1, 1995, was estimated at the date of the grant using the Black-Scholes options pricing model with the following weighted-average assumptions:

	1998	1997	1996
Risk-free interest rate	4.73%	6.17%	5.13%
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	51%	45%	41%
Expected lives	5.0 years	5.0 years	5.0 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

The weighted-average fair value of stock options granted during the years ended December 31, 1998, 1997, and 1996, was $5.16, $5.22 and $1.88, respectively. For purposes of the pro forma disclosures, the estimated fair value of stock options granted has been amortized to expense over the vesting period. The Company's pro forma information for FAS 123 is as follows (in thousands, except for loss per common share information):

		1998	1997	1996
Net income	As reported	$17,567	$21,693	$7,159
	Pro forma	$17,434	$21,616	$7,144
Basic earnings per common share	As reported	$1.11	$1.37	$.45
	Pro forma	$1.10	$1.37	$.45
Diluted earnings per common share	As reported	$1.07	$1.32	$.45
	Pro forma	$1.06	$1.31	$.45

Because FAS 123 is applicable only to options granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1999.

7. RELATED PARTY TRANSACTIONS

The Company paid a related party common carrier $1,662,397 in 1997. The Company believes that rates charged by this carrier compared favorably with rates charged by other carriers. The carrier was sold in September 1997 and is no longer a related party.

8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	1998	1997	1996
Numerator:			
Net income	$17,567,340	$21,692,775	$ 7,159,091
Denominator:			
Denominator for basic earnings per share - weighted average shares	15,843,591	15,791,856	15,772,869
Effect of dilutive securities:			
Employee stock options	544,668	690,609	94,371
Denominator for diluted earnings per share weighted average shares	16,388,259	16,481,925	15,867,240

9. CONTINGENCIES

In fiscal year 1998, a suit was filed against the Company as a result of an accident that occurred on the Company's premises. Subsequently, the Company has entered into a settlement agreement with the plaintiffs. All financial terms of the agreement are fully covered by the Company's insurance carrier. Therefore, the resolution of this matter will not have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

10. QUARTERLY FINANCIAL INFORMATION (UN-AUDITED)

The following is a summary of the un-audited quarterly financial information for the two years ended December 31, 1998 and 1997 (in thousands, except per share amounts):

1998	THREE MONTHS ENDED MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	$ 62,927	$ 63,905	$ 69,556	$ 47,654
Gross profit	15,449	12,460	15,337	5,738
Net income	6,436	4,565	5,902	664
Net income per common share - basic	.41	.29	.37	.04
Net income per common share - diluted	.39	.27	.36	.04

1997	THREE MONTHS ENDED MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
Net sales	$55,131	$66,889	$70,728	$61,893
Gross profit	10,471	13,269	15,347	14,230
Net income	4,057	5,259	6,321	6,055
Net income per common share - basic	.26	.33	.40	.38
Net income per common share - diluted	.25	.32	.38	.37

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The section entitled "Election of Directors" appearing in the Company's proxy statement for the annual meeting of stockholders to be held on May 4, 1999 sets forth certain information with respect to the directors of the Company and is incorporated herein by reference. Certain information with respect to persons who are or may be deemed to be executive officers of the Company is set forth under the caption "Executive Officers of the Company" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The section entitled "Executive Compensation" appearing in the Company's proxy statement for the annual meeting of stockholders to be held on May 4, 1999 sets forth certain information with respect to the compensation of management of the Company and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Certain Beneficial Owners and Management" appearing in the Company's proxy statement for the annual meeting of stockholders to be held on May 4, 1999 sets forth certain information with respect to the ownership of the Company's Common Stock and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Not Applicable

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this report:

(1) Financial Statements included in Item 8 herein:

Report of Independent Auditors
Consolidated Balance Sheets as of December 31, 1998 and 1997
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996
Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996
Consolidated Statements of Cash Flows for years ended December 31, 1998, 1997 and 1996
Notes to Consolidated Financial Statements

(2) Financial Statement Schedules included in Item 8 herein:

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) Exhibits:

The information required by this Item 14(a)(3) is set forth in the Index to Exhibits accompanying this Annual Report on Form 10-K.

(b) No Current Reports on Form 8-K were filed during the quarter ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, Encore Wire Corporation has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

ENCORE WIRE CORPORATION

Date: March 26, 1999

By: /s/ VINCENT A. REGO

Vincent A. Rego
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
/s/ VINCENT A. REGO Vincent A. Rego	Chairman of the Board of Directors, and Chief Executive Officer	March 26, 1999
/s/ DANIEL L. JONES	President and Chief Operating	March 26, 1999

------------------------------ Daniel L. Jones	Officer	
/s/ SCOTT D. WEAVER ------------------------------ Scott D. Weaver	Vice President-- Finance, Secretary and Treasurer (Principal Financial and Accounting Officer)	March 26, 1999

</TABLE>

<TABLE>
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SIGNATURE	TITLE	DATE
/s/ DONALD E. COURTNEY ------------------------------- Donald E. Courtney	Vice-Chairman of the Board of Directors	March 26, 1999
/s/ JOSEPH M. BRITO ------------------------------- Joseph M. Brito	Director	March 26, 1999
/s/ JOHN H. WILSON ------------------------------- John H. Wilson	Director	March 26, 1999
/s/ JOHN P. PRINGLE ------------------------------- John P. Pringle	Director	March 26, 1999
/s/ WILLIAM R. THOMAS ------------------------------- William R. Thomas	Director	March 26, 1999
/s/ DONALD M. SPURGIN ------------------------------- Donald M. Spurgin	Director	March 26, 1999

</TABLE>

INDEX TO EXHIBITS

<TABLE>
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Exhibit Number	Description	Page Number
3.1	Certificate of Incorporation of Encore Wire Corporation, as amended (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1, as amended (No. 33-47696), and incorporated herein by reference).	
3.2	Amended and Restated Bylaws of Encore Wire Corporation (filed as	

Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

10.1	Amended and Restated Financing Agreement dated as of June 15, 1994 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).
10.2	Revolving Note dated as of August 31, 1995 executed by Encore Wire Corporation payable to the order of NationsBank of Texas, N.A. (filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).
10.3	First Amendment to Amended and Restated Financing Agreement dated as of July 26, 1994 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994 and incorporated herein by reference).
10.4	Second Amendment to Amended and Restated Financing Agreement dated effective December 29, 1994 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).
10.5	Third Amendment to Amended and Restated Financing Agreement dated effective April 7, 1995 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).
10.6	Fourth Amendment to Amended and Restated Financing Agreement dated effective August 31, 1995 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).
10.7	Fifth Amendment to Amended and Restated Financing Agreement dated effective March 19, 1996 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference).
10.8	Sixth Amendment to Amended and Restated Financing Agreement dated effective September 17, 1996 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 and incorporated herein by reference).
10.9	Seventh Amendment to Amended and Restated Financing Agreement dated effective December 11, 1996 by and between NationsBank of Texas, N.A. and Encore Wire Corporation (filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

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10.10	* Amended and Restated Agreement Not to Compete dated March 8, 1994, between Encore Wire Corporation and Vincent A. Rego (filed as Exhibit 10.9 to the Company's Registration Statement on Form S-1, as amended (No. 33-76216), and incorporated herein by reference).
10.11	* Amended and Restated Agreement Not to Compete dated March 8, 1994, between Encore Wire Corporation and Donald M. Spurgin (filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1, as amended (No. 33-76216), and incorporated herein

	by reference).
10.12	* 1989 Stock Option Plan (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8, as amended (No. 33-54484), and incorporated herein by reference).
10.13	* 1989 Stock Option Plan, as amended (filed as Exhibit 10.12 to the Company's Registration Statement on Form S-1, as amended (No. 33-76216), and incorporated herein by reference).
10.14	1989 Stock Option Plan, as amended and restated (filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-38729), and incorporated herein by reference.)
10.15	Second Amended and Restated Financing Agreement dated as of June 9, 1997 by and among Encore Wire Corporation, NationsBank of Texas, N.A. and Bank of America, Texas N/A (filed as exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
10.16	$35,000,000 Revolving Note to NationsBank of Texas, N.A. (filed as exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
10.17	$25,000,000 Revolving Note to Bank of America, Texas N.A. (filed as exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
10.18	NationsBank of Texas, N.A. Guaranty Agreement (filed as exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
10.19	Bank of America, Texas N.A. Guaranty Agreement (filed as exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference).
10.20	* Employment Agreement dated as of October 1, 1996 between the Company and Donald M. Spurgin (filed as exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
10.21	First Amendment to Second Amended and Restated Financing Agreement dated as of February 20, 1998 by and among Encore Wire Corporation, NationsBank of Texas, N.A. and Bank of America, Texas N.A. (filed as exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 and incorporated herein by reference).
10.22	Second Amendment to Second Amended and Restated Financing Agreement dated as of June 15, 1998 by and among Encore Wire Corporation, NationsBank of Texas, N/A and Bank of America, Texas N.A. (filed as exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 and incorporated herein by reference).
10.23	Third Amendment to Second Amended and Restated Financing Agreement dated as of August 28, 1998 by and among Encore Wire Corporation, NationsBank of Texas, N.A. and Comerica Bank - Texas (filed as exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 and incorporated herein by reference).

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10.24	Fourth Amendment to Second Amended and Restated Financing Agreement dated as of October 28, 1998 by and among Encore Wire

	Corporation, NationsBank of Texas, N.A. and Comerica Bank - Texas (filed as exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 and incorporated herein by reference).
21.1	Subsidiary.
23.1	Consent of Ernst & Young LLP.
27.1	Financial Data Schedule
*	Management contract or compensatory plan

</TABLE>

EXHIBIT 21.1

SUBSIDIARY

EWC Leasing Corp., a Nevada corporation

EWC Aviation Corp., a Texas corporation

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 333-38729, Form S-8 No. 33-89126 and Form S-8 No. 33-54484) pertaining to the 1989 Stock Option Plan of Encore Wire Corporation of our report dated January 22, 1999, with respect to the consolidated financial statements of Encore Wire Corporation included in the Form 10-K for the year ended December 31, 1998.

/s/ Ernst & Young LLP

Dallas, Texas
March 26, 1999

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