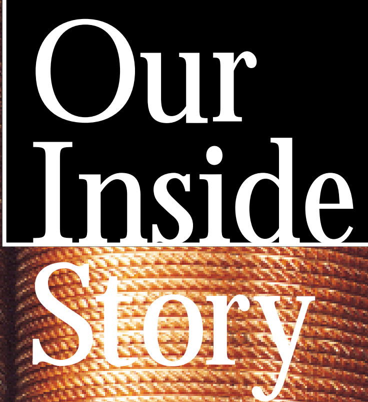


# Our Inside Story

WOLVERINE TUBE, INC.

ANNUAL REPORT 2000

# Business Description

Wolverine Tube, Inc. ("Wolverine") is a world-class quality partner, providing its customers with copper and copper alloy tube, fabricated products, brazing alloys, fluxes and lead-free solder, as well as copper and copper alloy rod, bar and strip products. The Company believes that it offers the broadest product line of any North American tube manufacturer and focuses on custom-engineered, high value-added tubular and fabricated products, which enhance performance and energy efficiency in many applications.

A primary market for Wolverine's products is the Heating, Ventilation and Air Conditioning/Refrigeration (HVAC/R) industry, which includes both residential and commercial applications. Wolverine is a major supplier to all five of the North American Original Equipment Manufacturers (OEMs) of large commercial air conditioning units. The Company also supplies tube, joining products and fabricated products to OEMs of residential air conditioning units, consumer appliance manufacturers, automotive manufacturers, industrial equipment manufacturers, utilities and other power generating companies, refining and chemical processing companies, plumbing wholesalers and numerous other industries.

Headquartered in Huntsville, Alabama, Wolverine has manufacturing facilities in the United States, Canada, China and Portugal as well as sales and business development offices in Lyon, France; London, United Kingdom; Apeldoorn, The Netherlands; and Hong Kong, China.

# Table Of Contents


| | |
|---|---|
| Our Inside Stories | 1-6 |
| Letter To Stockholders and Friends | 7-8 |
| Selected Consolidated Financial Data | 10-11 |
| Management's Discussion and Analysis | 12-20 |
| Consolidated Financial Statements | 21-24 |
| Notes to Consolidated Financial Statements | 25-40 |
| Auditor's Report | 41 |
| Corporate Information | 42 |
| Officers and Board of Directors | Inside Back Cover |


# About the Cover

*Wolverine's Technical Tube is a technically advanced tube containing wedge-like grooves that enhance heat transfer and efficiency. This type of tube is used in the commercial air conditioning, heat exchangers and water, swimming pool and spa heater industries. The tube can be made from a variety of metals including copper, copper alloy, titanium and steel, or Wolverine can take a customer's base tube and customize it for a specific project. Wolverine was the first to develop integral finned tube, in which the fins are formed directly from the wall of the tube.*

# Our Inside Story

You may already know a portion of Wolverine's inside story, including the fact that Wolverine is a leading global supplier of tubes and fabricated products for many of the world's largest manufacturers.

What you may not know, and what you might be surprised to learn, is that there is probably a Wolverine story inside many of the things that touch your life everyday. Tour Walt Disney World® and you'll discover Wolverine's technically enhanced tube inside the cooling system, the restaurants and the water fountains. Cook a meal at home and you'll find Wolverine's sophisticated tubes and joining rings (shown above, right) inside your refrigerator, hot water heater and faucets. Turn on your cell phone and Wolverine's joining technologies (shown above, left) will help create the contact with the phone's internal power capacitor. Join a marching band and you'll uncover Wolverine's products in many of the instruments.

Wolverine is there and many other places. **Here's The Inside Story.**

# Inside The Empire State Building

And New York's World Financial Center. And the Chunnel connecting England and France. And Disney's Magic Kingdoms in Orlando, Paris, Tokyo and Anaheim. All these landmarks are cooled by large chillers containing Wolverine's Technical Tube. So whether you are conducting business in the TransAmerica Building in San Francisco or vacationing at the Hilton Hotel in Abu Dhabi, Wolverine is there.

## The Fourth Slot Machine on The Third Row at Harrah's Casino

As well as every other slot machine there. Wolverine's strip is the base metal used in the slot machine tokens of America's leading casinos, such as Harrah's, Caesar's Palace and AmeriStar. So, whether you like to tempt Lady Luck on the strip in Vegas, the board-walk in Atlantic City or the beachside and cruise ships of Biloxi, Wolverine is there.

## Electric Power Sub-Stations

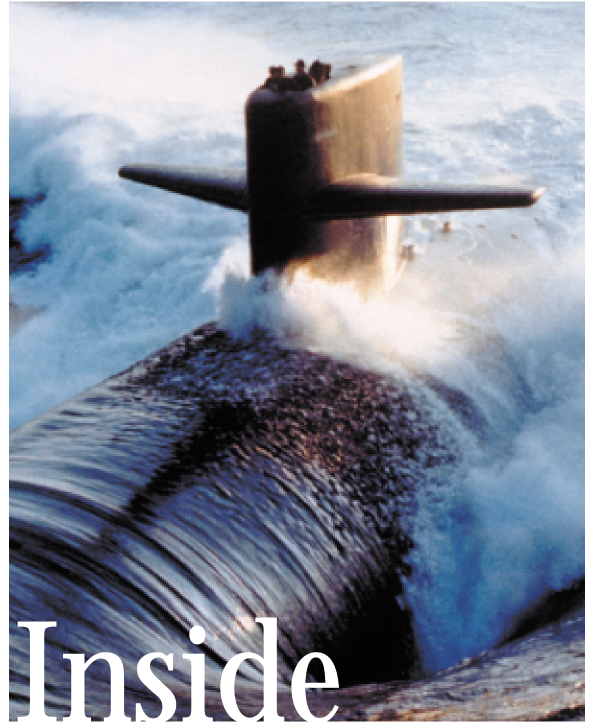
Thousands of utility stations containing Wolverine's Rod and Bar products dot the American landscape making sure power keeps flowing day and night. As you watch reports on California's power shortage, Wolverine is providing copper alloy products for new power plants being built around the country. And that means lamps light in New Jersey, televi-sions glow in the Midwest and computers process in LA offices because Wolverine is there. And there. And there, too.

# Inside
## 427 Chatsworth Way

Wolverine helps deliver the comforts that make a house a home. Wolverine's industrial tubes and fabricated products are inside the air conditioning units that not only cool your family but create efficient energy use as well. Our tubes also heat the water in your pool and deliver the gas to your outdoor grill. "Home Sweet Home" is a little sweeter because Wolverine is there.

# Inside
## The Refrigerator, Freezer, Lighting Fixtures and Hot Water Systems in Jill and Todd Melton's Kitchen

When the Meltons work in their kitchen, Wolverine is working with them. As a matter of fact, our wholesale tube and fabricated products are in many of the household appliances we all use every day. Food stays frozen, beverages stay chilled and the lights stay on whenever Wolverine is there.

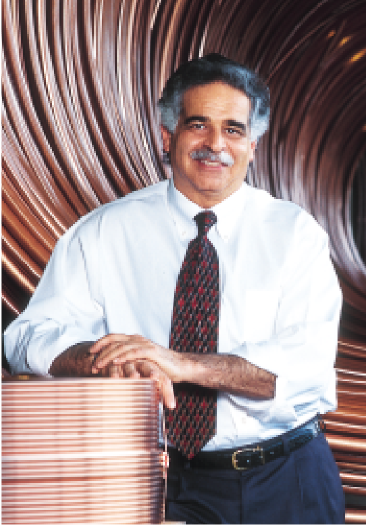


# Inside
## The Triton Submarine

Our titanium and copper alloy tubes are aboard EVERY nuclear submarine and EVERY nuclear aircraft carrier in the United States Navy. In fact, since 1916 Wolverine has taken a proud role in serving and providing the U.S. Armed Forces with products that have extremely precise and highly technical specifications. And that means when the aircraft carrier USS Ronald Reagan was christened on March 4, 2001, Wolverine was there.

# Inside
## The Musical Instruments of the Tiger Marching Band

Our products help create the music that inspires teams and fans alike. As the Tiger band plays the home team's fight song, think about the fact that Wolverine's fabricated and strip products are inside a majority of the instruments on the field. And, as you sit eating a hot dog, cheering the team on, also realize there is a good chance Wolverine's tube and joining products are in the restaurants and concession stands of the stadium itself.



Dennis Horowitz
Chairman, President and
Chief Executive Officer

# Letter To
# Our Stockholders and Friends:

Wolverine Tube reported solid performance in 2000 while meeting the challenges presented by economic slowdowns both at home and abroad.

## Solid Growth Ahead

For the year ended December 31, 2000, net income was $23.5 million, or $1.88 per diluted share, compared with a net income (before non-recurring, restructuring and other charges and the cumulative effect of an accounting change) of $23.2 million, or $1.73 per diluted share, for 1999. Total pounds of product shipped in 2000 increased by 5.6 million pounds to 392.8 million pounds. Gross profit for the year was $84.2 million, a four percent increase over 1999 gross profit before non-recurring charges.

All of these measures validate that we achieved substantial growth even in the midst of a slowing North American economy and in the face of higher interest rates, both of which contributed to price and volume pressure. Additionally, sharply higher energy and transportation costs, as well as higher employee health care expenditures, increased operating expenses. These rising costs are exactly why we implemented our War on Waste (WOW) program and embarked upon our capital improvement program – Project 21. As a result, we were able to absorb and offset the majority of these cost increases and deliver positive results for 2000. While we, like others, expect the U.S. economy to show little growth in the first half of 2001, we do anticipate improving conditions throughout the balance of the year. This economic outlook, coupled with our productivity gains, improved asset utilization and WOW initiatives, gives us confidence that we can deliver solid results in 2001 and beyond.

## Joining Technologies Acquisition Heightens Growth Potential

In late 2000, we completed the acquisition of the Joining Technologies business of Engelhard Corporation. Joining Technologies has a long history of strong financial performance. In addition, the business brings with it a sound management team and talented workforce, with significant business experience and expertise. This acquisition significantly enhances our growth prospects worldwide and uniquely positions us to better serve both existing and new customers around the globe. The reaction of both the investment community and our customers has been very favorable. In fact, we have already experienced opportunities to leverage these customer relationships by offering a wider range of complementary, high-quality products. Further, we expect to enjoy substantial manufacturing and infrastructure synergies as we assimilate the business into Wolverine.

## New Technical Tube Facility Being Built in Europe

In early 2001, Wolverine finalized plans to build a $9 million, 33,000-square-foot technical tube facility in Esposende, Portugal, approximately 20 miles north of Porto in northwestern Portugal. This effort will mark the first time Wolverine has produced technical tube in Europe and underscores the high level of commitment and confidence that the Company has in its customers and the European market. Further, this location provides us with additional opportunities to expand our fabricated products and joining technologies offerings in the European market.

Initially, the Portuguese facility will have a capacity of five to six million pounds. Production at the facility will ramp up in the fourth quarter of 2001, and full production will begin in the first half of 2002. Leading the effort at our Portuguese facility is Mark Brown, who oversaw the very successful start-up of our Shanghai facility.

## Future Looks Encouraging

Even with the current slowdown in the U.S. economy, we believe that the growing domestic and international demand for our products is encouraging.

*Technical tube*, used in commercial chillers, continues to show positive global momentum, and we remain focused on maintaining our domestic business and expanding market share overseas. In fact, we recently added a third shift at our Shanghai facility to meet the growing demand for the Company's products. The Shanghai facility has exceeded expectations both in terms of production and efficiency, and we look for this kind of success from our new facility in Portugal.

*Sales of industrial tube*, used in residential air conditioners, were at record levels for Wolverine in 2000 despite the unusually cool summer in the Northeast. We were able to achieve this record given our broad customer base with its geographic dispersion along with the ramp-up of our Jackson, Tennessee facility. Viewing the unitary air conditioner industry in total, Air-Conditioning and Refrigeration Institute (ARI) reports that inventory levels are slightly above last year, but have begun to decline. This inventory situation, compounded by a slower economy, has caused some softness in the market. With this in mind, we expect this year's industrial tube demand to be down about three to five percent from last year, which would put 2001 in line with 1999 levels. Having said that, it is important to remember that approximately 70 percent of the units sold are replacement sales for the OEM, and a normal cooling season could very easily make 2001 another record year.

*Demand for fabricated products* was up over last year, and we continue to see additional domestic and global growth opportunities for this product group. Although the manufacturing sector of the economy has been hit hard during the recent slowdown, we still expect 2001 to be another growth year for our fabricated products group. We continue to see additional domestic and global growth opportunities, especially as we broaden our business presence in Asia and Europe.

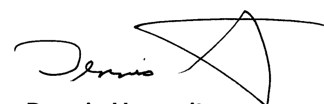
*In the wholesale products market*, which consists of plumbing and refrigeration tube, we are continuing to see sluggish demand exacerbated by erratic pricing. While we expect the first half of 2001 to show little improvement due to these factors, we do anticipate improving conditions throughout the balance of the year. And because this is a commodity product, there is always attendant volatility.

*Our strip business* continues to enjoy significant opportunities both in North America and around the globe. In fact, almost 50 percent of WRI's (our strip product joint venture) sales are outside of North America. Further integration and consolidation of production facilities is underway, and we expect to start realizing the benefits from these actions in the latter part of this year and into 2002.

Longer term, looking at the Company as a whole, our core businesses are solid. We continue to anticipate productivity and profit improvements from Project 21 and ongoing benefits from Wolverine Joining Technologies. The combination of these elements leads us to expect positive earnings per share growth in 2001. At the same time, we, like most companies, are facing abnormally high energy and transportation costs, as well as accelerating employee health care costs. Many of these issues – particularly our weakening economy – are sure to remain a challenge for everyone in the year ahead. Presuming that the economy does not weaken beyond current expectations, we are optimistic about our outlook based on the following:

- Wolverine Joining Technologies will increasingly contribute to our earnings during the year;
- We will see increasing benefits from Project 21 and our War on Waste programs;
- Our Chinese and other global businesses continue to grow;
- We will continue to introduce new products which drive share and make us more competitive;
- We are maintaining and, in many cases, growing market share; and, by no means last,
- We have a strong management team that is willing, and has demonstrated the ability, to drive improvements under difficult conditions.

In conclusion, your management team is committed to ensuring a long and profitable future for our Company. As always, we appreciate your interest in and support of Wolverine Tube, Inc.



**Dennis Horowitz**
Chairman, President and
Chief Executive Officer

April 12, 2001

# Selected Consolidated Financial Data

Wolverine Tube, Inc. and Subsidiaries

The historical consolidated financial data presented below for the years ended December 31, 2000, 1999, 1998, 1997 and 1996, were derived from the audited consolidated financial statements of the Company, and should be read in conjunction therewith and with the information set forth under "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| STATEMENT OF OPERATIONS DATA: | **2000** | 1999 | 1998 | 1997 | 1996 |
| *(In thousands, except per share amounts)* | | | | | |
| Net sales | **$700,176** | $645,774 | $617,512 | $667,686 | $699,863 |
| Cost of goods sold[a] | **615,948** | 579,030 | 534,799 | 585,060 | 606,157 |
| Gross profit | **84,228** | 66,744 | 82,713 | 82,626 | 93,706 |
| Selling, general and administrative expenses | **34,411** | 30,777 | 26,328 | 22,506 | 22,012 |
| Restructuring and other charges[b] | **–** | 19,938 | 11,867 | 4,384 | – |
| Income from operations | **49,817** | 16,029 | 44,518 | 55,736 | 71,694 |
| Other expenses: | | | | | |
| Interest expense, net | **13,098** | 12,608 | 6,566 | 7,367 | 9,321 |
| Amortization and other, net | **(34)** | 1,941 | (37) | 287 | 998 |
| Income before income taxes, extraordinary item and cumulative effect of accounting change | **36,753** | 1,480 | 37,989 | 48,082 | 61,375 |
| Income tax provision (benefit) | **13,278** | (289) | 13,352 | 17,506 | 21,792 |
| Income before extraordinary item and cumulative effect of accounting change | **23,475** | 1,769 | 24,637 | 30,576 | 39,583 |
| Extraordinary item, net of income tax benefit | **–** | – | – | (4,738) | – |
| Cumulative effect of accounting change, net of income tax benefit | **–** | (5,754) | – | – | – |
| Net income (loss) | **$ 23,475** | $ (3,985) | $ 24,637 | $ 25,838 | $ 39,583 |
| Net income (loss) applicable to common shares[c] | **$ 23,195** | $ (4,265) | $ 24,357 | $ 25,558 | $ 39,303 |
| Earnings per common share – basic: | | | | | |
| Income before extraordinary item and cumulative effect of accounting change | **$ 1.91** | $ 0.11 | $ 1.74 | $ 2.16 | $ 2.85 |
| Extraordinary item | **–** | – | – | (0.34) | – |
| Cumulative effect of accounting change | **–** | (0.44) | – | – | – |
| Net income (loss) per share | **$ 1.91** | $ (0.33) | $ 1.74 | $ 1.82 | $ 2.85 |
| Basic weighted average common shares | **12,153** | 13,106 | 14,025 | 14,022 | 13,772 |
| Earnings per common share – diluted: | | | | | |
| Income before extraordinary item and cumulative effect of accounting change | **$ 1.88** | $ 0.11 | $ 1.72 | $ 2.13 | $ 2.77 |
| Extraordinary item | **–** | – | – | (0.33) | – |
| Cumulative effect of accounting change | **–** | (0.43) | – | – | – |
| Net income (loss) per share | **$ 1.88** | $ (0.32) | $ 1.72 | $ 1.80 | $ 2.77 |
| Diluted weighted average common and common equivalent shares | **12,344** | 13,243 | 14,186 | 14,232 | 14,196 |

# Selected Consolidated Financial Data

Wolverine Tube, Inc. and Subsidiaries

| OTHER DATA: | Year Ended December 31, 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| *(In thousands, except per pound amounts)* | | | | | |
| Pounds shipped | **392,763** | 387,156 | 357,480 | 339,313 | 349,297 |
| Depreciation and amortization | **$17,932** | $16,448 | $17,320 | $16,796 | $16,346 |
| Capital expenditures | **35,455** | 24,125 | 34,694 | 21,598 | 8,540 |
| Average COMEX price of copper per pound[d] | **0.84** | 0.72 | 0.75 | 1.04 | 1.06 |

| BALANCE SHEET DATA: | Year Ended December 31, 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| *(In thousands, except per share amounts)* | | | | | |
| Total assets | **$590,355** | $506,689 | $549,418 | $424,922 | $397,020 |
| Total long-term debt | **231,163** | 180,718 | 215,689 | 98,411 | 100,473 |
| Redeemable cumulative preferred stock | **2,000** | 2,000 | 2,000 | 2,000 | 2,000 |
| Stockholders' equity | **232,374** | 219,638 | 233,651 | 229,451 | 205,910 |

*(a) During 1999 and 1998, the Company incurred non-recurring charges that are included in cost of goods sold of approximately $14.4 million and $2.1 million, respectively. The 1999 non-recurring charge included $8.1 million relating to the liquidation of LIFO inventory values resulting from planned inventory reductions, $4.6 million related to obsolete inventory, $0.8 million net book value of idled and obsolete machinery and equipment and $0.9 million of other charges related to the realignment of the Company's manufacturing operations. The 1998 non-recurring charge included $0.5 million of obsolete inventory and $0.9 million of other costs associated with the closing of the Company's Greenville, Mississippi facility and $0.7 million of costs associated with the discontinuation of casting at the Company's Roxboro, North Carolina facility. See Note 16 of the Notes to Consolidated Financial Statements.*

*(b) During 1999, the Company recognized restructuring and other charges of approximately $19.9 million ($12.5 million after tax). This charge included $10.0 million in expenses relating to the announced closing of the Company's Roxboro, North Carolina facility, of which $8.6 million in expenses related to the write-down of impaired assets; $2.8 million in expenses related to the implementation of an indirect workforce reduction program; $3.6 million in expenses related to impaired assets as a result of relocating the Roxboro machinery and equipment to other facilities in the Company and thereby displacing existing equipment; $1.9 million in expenses related to previously closed facilities, of which $1.8 million related to the write-down of impaired assets; $0.8 million in expenses related to the termination of an interest rate swap; and $0.8 million in professional fees and other costs primarily associated with acquisitions that were not completed. See Note 16 of the Notes to Consolidated Financial Statements.*

*(b) During 1998, the Company recorded restructuring and other charges of approximately $11.9 million ($7.5 million after tax). This charge included $7.4 million in expenses related to the closing of the Company's Greenville, Mississippi facility, of which $5.6 million in expenses related to the write-down of impaired assets resulting primarily from the closing of this facility; $2.3 million in expenses for the writedown of impaired assets related to the discontinuation of casting at the Company's North Carolina facility; $0.4 million of other costs related to the discontinuation of the casting process at the North Carolina facility; $0.9 million in expenses related to the implementation of a salaried workforce reduction program; and $0.9 million in professional fees and other costs primarily associated with an acquisition that was not completed. See Note 16 of the Notes to Consolidated Financial Statements.*

*(b) During 1997, the Company recorded restructuring and other charges of approximately $4.4 million ($3.0 million after tax). This charge included $1.8 million in expenses related to the implementation of the Company's 1997 Voluntary Early Retirement Program; $1.3 million of severance costs; $0.6 million of professional fees and other costs associated with an acquisition that was not completed; and $0.7 million of costs for discontinuing Poland operations of Small Tube Manufacturing Corporation (a wholly-owned subsidiary of the Company).*

*(c) Reflects the payment of preferred stock dividends and accretion of preferred stock redemption requirements.*

*(d) Source: Metals Week.*

## *Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995*

Certain of the statements and subject areas contained herein are made pursuant to the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements use such words as "may," "will," "expect," "believe," "plan" and other similar terminologies. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future – including statements relating to operating performance, property, plant and equipment expenditures and sources and uses of cash – are forward-looking statements. These forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those stated or implied by such forward-looking statements. The Company undertakes no obligation to publicly release any revision of any forward-looking statements contained herein to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. With respect to expectations of future earnings, factors that could affect actual results include, without limitation, global and local economic and political environments, weather conditions, environmental contingencies, regulatory pressures, labor costs, raw material costs, fuel and energy costs, the mix of geographic and product revenues, the effect of currency fluctuations, competitive products and pricing, assumptions made as to customer retention, costs associated with attracting new customers and costs of integrating recent acquisitions.

## GENERAL

The following general factors should be considered in analyzing the Company's results of operations:

### Components of Cost of Goods Sold

A substantial portion of the Company's cost of goods sold reflects the cost of raw materials, principally copper. These costs, which fluctuate with the markets for such raw material, are generally passed along to the Company's customers. Accordingly, the levels of the Company's net sales and costs of goods sold are affected by the rise and fall of copper prices and other metals, even in the absence of increases or decreases in business activity. The rise and fall of copper prices cause variations in the Company's gross margin (gross profit as a percentage of net sales), but have little direct impact on the Company's levels of gross profit.

### Variability of Wholesale Product Gross Profit

Gross profit attributable to sales of the Company's wholesale products has fluctuated and may continue to fluctuate substantially from period to period. In 2000, 1999 and 1998, gross profit from sales of these products was $10.5 million, $12.2 million and $6.4 million, respectively. Gross profit derived from the sale of wholesale products is mainly affected by changes in selling prices. Selling prices for these products are affected principally by general economic conditions (especially the rate of housing starts), industry competition and manufacturing capacity, industry production levels and other market factors, all of which are beyond the control of the Company.

### Impact of Product Mix

The Company's products range from higher value-added and higher margin commercial products to commodity-type products such as wholesale tube products and rod and bar products. The Company's overall profitability from period to period is affected by the mix in sales within these categories. The Company has substantial sales in Canada, and its product mix in that market, as compared to the United States market, reflects a much higher percentage of commodity-type products, such as wholesale tube products and rod and bar products.

### Cyclical and Seasonal Nature of Demand

Because the Company primarily supplies component parts, the Company's operations are affected by changes in its customers' markets. Demand in certain industries to which the Company sells its products is cyclical. In particular, sales of plumbing tube and refrigeration service tube are affected by changes in residential construction rates. Demand in certain industries to which the Company sells, including the residential air conditioning industry, is also seasonal. Sales to the residential air conditioning market are generally greater in the first and second quarters of the year and lower in the third and fourth quarters because manufacturers typically increase inventories in the early part of the year in anticipation of summer air conditioning sales and housing starts. In addition, sales of industrial tube are affected adversely in years with unusually cool summers.

## RESULTS OF OPERATIONS

### Year-Ended December 31, 2000, Compared with Year-Ended December 31, 1999

Consolidated net sales for the year ended December 31, 2000, were $700.2 million, an increase of $54.4 million or 8.4% from net sales of $645.8 million in 1999. Approximately $35 million of the increase in net sales was attributable to an increase in the price of raw materials, principally copper, and to a lesser extent, an increase in the volume of raw materials. The average COMEX copper price for 2000 was $0.84 per pound compared with $0.72 per pound in 1999. Sales also increased as a result of a richer mix of products sold, which included increased fabrication revenues for technical tube and industrial tube and the addition of joining products. Pounds shipped increased by 5.6 million pounds or 1.4% in 2000 to 392.8 million from 387.2 million in 1999.

Pounds of commercial products shipped increased by 13.0 million pounds or 5.8% in 2000 to 237.7 million from 224.7 million in 1999. This increase in shipments was primarily due to increased volumes of technical tube used in the commercial air conditioning industry and industrial tube used in the residential air conditioning industry. Sales of commercial products increased $50.1 million or 11.5% in 2000 to $486.9 million from $436.7 million in 1999. Approximately $25 million of the increase in sales of commercial products was attributable to an increase in the volume and price of raw materials. The remaining increase was attributable to increased fabrication revenues of technical and industrial tube resulting primarily from higher volumes, as well as the addition of joining products, namely brazing alloys, fluxes and solders. Gross profit from commercial products increased by $6.1 million or 10.1% in 2000 to $67.0 million from $60.8 million in 1999, excluding the effect of $10.4 million of non-recurring charges recorded in 1999. The increase in gross profit from commercial products was primarily attributable to the increased volumes of technical and industrial tube as well as the addition of joining products.

Pounds of wholesale products shipped decreased by 19.6 million pounds or 22.4% in 2000 to 67.8 million from 87.5 million in 1999. The Company believes that shipments were negatively impacted by higher interest rates, which have in turn caused a slowdown in the residential construction markets in both the United States and Canada. This adversely affected both demand and pricing for wholesale products. Sales of wholesale products decreased $21.8 million or 18.4% in 2000 to $97.0 million from $118.8 million in 1999. Approximately $8 million of the decrease in sales of

wholesale products was attributable to a decrease in the volume, offset by an increase in price of raw materials. Gross profit from wholesale products decreased $4.7 million or 30.7% in 2000 to $10.5 million from $15.2 million in 1999, excluding the effect of $3.0 million of non-recurring charges recorded in 1999.

Pounds of rod, bar and strip products shipped increased by 12.2 million pounds or 16.3% in 2000 to 87.2 million from 75.0 million in 1999, primarily due to shipments of strip products from Wolverine Ratcliffs, Inc., which became a joint entity of the Company in July 1999. Sales of rod, bar and strip products increased $26.1 million or 28.9% in 2000 to $116.3 million from $90.2 million in 1999. Approximately $18 million of the increase in sales of rod, bar and strip products was attributable to an increase in the volume and price of raw materials. The remaining increase was attributable to the increased fabrication revenues resulting primarily from higher volumes of strip products and to a lesser extent increased selling prices. Gross profit from rod, bar and strip products increased $1.6 million or 30.7% in 2000 to $6.7 million from $5.1 million in 1999, excluding the effect of $1.0 million of non-recurring charges in 1999. This improvement in gross profit was due primarily to increased volumes of strip products and cost reductions in the manufacture of rod and bar products.

Consolidated gross profit increased 26.2% in 2000 to $84.2 million from $66.7 million in 1999. In 1999, non-recurring charges of $14.4 million were recognized in cost of goods sold. These charges primarily consisted of $8.1 million relating to the liquidation of LIFO inventory values resulting from planned inventory reductions, $4.6 million related to obsolete inventory, $0.8 million net book value of idled and obsolete machinery and equipment and $0.9 million of other charges related to the realignment of the Company's manufacturing operations. Excluding the effect of the non-recurring charges, consolidated gross profit increased 3.8% in 2000 to $84.2 million from $81.1 million in 1999. Gross profit in 2000 was negatively impacted by higher energy and transportation costs of $1.9 million and higher employee health care costs of $0.8 million. While the Company was able to largely offset these cost increases in 2000 through its cost reduction efforts and capital improvement programs, the Company anticipates that these costs will continue to increase in 2001.

Consolidated selling, general and administrative expenses for the year ended December 31, 2000, increased 11.8% to $34.4 million, compared with $30.8 million in 1999. This increase was primarily the result of approximately $2.0 million of costs due to the addition of Wolverine Ratcliffs, Inc., increased employee compensation expenses relating to performance incentives, relocation costs of approximately $1.3 million and approximately $0.6 million of costs due to the addition of the joining products business in the fourth quarter of 2000.

Income from operations for the year ended December 31, 2000, increased $33.8 million to $49.8 million, compared with $16.0 million in 1999. In 1999, restructuring and other charges of $19.9 million were recognized, as described in the "Restructuring and Other Charges" section below, as well as the previously described $14.4 million of non-recurring charges that were recognized in cost of goods sold. Excluding the effect of the non-recurring and restructuring and other charges recorded in 1999, income from operations decreased 1.1% to $49.8 million in 2000, compared with $50.4 million in 1999.

Consolidated net interest expense was $13.1 million in 2000 as compared to $12.6 million for 1999. This increase was primarily the result of approximately $2.5 million less interest income. Largely offsetting this reduction of interest income was a reduction of $1.0 million of interest expense due to lower average outstanding balances on the Company's revolving credit facilities as well as an increase in capitalized interest of $1.0 million. In 2001, the Company expects average outstanding balances on its revolving credit facilities to increase as compared to 2000, primarily due to its purchase of the joining products business in September 2000.

Amortization and other, net was $34,000 of income in 2000, as compared to expense of $1.9 million in 1999. This change was primarily the result of recording a foreign currency exchange gain of $0.7 million in 2000 versus a foreign currency exchange loss of $1.0 million in 1999. These foreign currency gains and losses are largely attributable to fluctuations in the Canadian to U.S. dollar exchange rate. The exchange rate was 1.50 and 1.44, Canadian dollars to U.S. dollars, at December 31, 2000 and December 31, 1999, respectively. Amortization expense remained approximately the same in 2000 as compared to 1999.

For the year ended December 31, 1999, the Company recognized a tax benefit of $0.3 million resulting from the recognition of non-recurring charges in cost of goods sold and restructuring and other charges. Excluding the effect of the tax benefit and the associated non-recurring and restructuring and other charges recognized in 1999, the effective tax rate would have been 36.1% in 2000 and 35.3% in 1999.

Consolidated net income in 2000 was $23.5 million, or $1.88 per diluted share, compared to a consolidated net loss of $4.0 million, or $0.32 loss per diluted share, in 1999. Excluding the non-recurring charges included in cost of goods sold and restructuring and other charges recognized in 1999 and the cumulative effect of an accounting change recognized in 1999, consolidated net income and diluted earnings per share for 1999 would have been $23.2 million and $1.73, respectively, in 1999.

### Year-Ended December 31, 1999, Compared with Year-Ended December 31, 1998

Consolidated net sales for the year ended December 31, 1999, were $645.8 million, an increase of $28.3 million or 4.6% from net sales of $617.5 million in 1998. Approximately $10 million of the increase in net sales was attributable to an increase in the volume of raw materials, principally copper, offset partially by a decrease in the price of raw materials. The average COMEX copper price for 1999 was $0.72 per pound compared with $0.75 per pound in 1998. Sales also increased as result of increased fabrication revenues for wholesale, strip products and industrial tube products. Pounds shipped increased by 29.7 million pounds or 8.3% in 1999 to 387.2 million from 357.5 million in 1998.

Pounds of commercial products shipped increased by 5.6 million pounds or 2.5% in 1999 to 224.7 million from 219.1 million in 1998. This increase in shipments was primarily due to increased volumes of industrial tube used in the residential air conditioning industry. The increase in shipments of industrial tube was offset somewhat by reduced shipments of technical tube products. Technical tube shipments decreased over prior period levels as the Company experienced a significant, unexpected decline in demand for these products from major customers resulting from a decreased rate of replacement of large commercial air conditioning units using CFC refrigerants. Sales of commercial products decreased $8.8 million or 2.0% in 1999 to $436.7 million from $445.5 million in 1998. Approximately $7 million of the decrease in sales of commercial products was attributable to a decrease in the price of raw materials. The remaining decrease was attributable to decreased fabrication revenues of technical tube resulting from lower volumes and pricing, offset partially by higher volumes of industrial tube. Gross profit from commercial products decreased by $12.6 million or 17.1% in 1999 to $60.8 million, excluding the effect of $10.4 million of non-recurring charges recorded in 1999, from $73.4 million in 1998. The decrease in gross profit was primarily attributable to the decreased volumes of technical tube as well as the slower than anticipated ramp-up of the Jackson, Tennessee facility.

Pounds of wholesale products shipped increased by 6.6 million pounds or 8.1% in 1999 to 87.5 million from 80.9 million in 1998. Sales of wholesale products increased $14.7 million or 14.2% in 1999 to $118.8 million from $104.1 million in 1998. Approximately $3 million of the increase in sales of wholesale products was attributable to a net increase in the volume and price of raw materials. The remaining increase was attributable to the increased fabrication revenues resulting from increased selling prices and to a lesser extent increased volumes. Gross profit from wholesale products increased $8.8 million in 1999 to $15.2 million, excluding the effect of $3.0 million of non-recurring charges recorded in 1999 from $6.4 million in 1998.

Pounds of rod, bar and strip products shipped increased by 17.5 million pounds or 30.5% in 1999 to 75.0 million from 57.4 million in 1998, primarily due to increased shipments of strip products to the Canadian mint during the first half of the year and to shipments of strip products from Wolverine Ratcliffs, Inc., which became a joint entity of the Company in July 1999. Sales of rod, bar and strip products increased $22.3 million or 32.8% in 1999 to $90.2 million from $68.0 million in 1998. Approximately $13 million of the increase in sales of rod, bar and strip products was attributable to a net increase in the volume and price of raw materials. The remaining increase was attributable to the increased fabrication revenues resulting from higher volumes of strip products. Gross profit from rod, bar and strip products increased $2.2 million or 74.3% in 1999 to $5.1 million, excluding the effect of $1.0 million of non-recurring charges recorded in 1999, from $2.9 million in 1998, due primarily to increased volumes of strip products and cost reductions in the manufacture of rod and bar products.

Consolidated gross profit decreased 19.3% in 1999 to $66.7 million from $82.7 million in 1998. In 1999, non-recurring charges of $14.4 million were recognized in cost of goods sold. These charges primarily consisted of $8.1 million relating to the liquidation of LIFO inventory values resulting from planned inventory reductions, $4.6 million related to obsolete inventory, $0.8 million net book value of idled and obsolete machinery and equipment and $0.9 million of other charges related to the realignment of the Company's manufacturing operations. In 1998, non-recurring charges of $2.1 million were recognized in cost of goods sold. These charges consisted of $0.5 million of obsolete inventory and $0.9 million of other costs associated with the closing of the Company's Greenville, Mississippi facility and $0.7 million of costs associated with the discontinuation of casting at the Company's Roxboro, North Carolina facility. Excluding the effect of the non-recurring charges in both years, consolidated gross profit decreased 4.4% in 1999 to $81.1 million from $84.8 million in 1998.

Consolidated selling, general and administrative expenses for the year ended December 31, 1999, increased 17.1% to $30.8 million, compared with $26.3 million in 1998. This increase was primarily the result of approximately $0.5 million of depreciation and maintenance charges resulting from new information systems software, approximately $0.5 million of costs due to the addition of Wolverine Ratcliffs, Inc., an incremental increase in depreciation of approximately $0.9 million primarily on the Company's new research and development center, and increased employee compensation expenses relating to performance incentives and relocation costs of approximately $2.3 million.

As a result of decreased gross profit, increased selling, general and administrative expenses, and restructuring and other charges recorded in 1999, as described in "Restructuring and Other

Charges" section below, consolidated income from operations decreased by 64.0% to $16.0 million in 1999, from $44.5 million in 1998. Excluding the effect of the non-recurring and restructuring and other charges recorded in both years, income from operations was $50.4 million in 1999 and $58.5 million in 1998.

Consolidated net interest expense was $12.6 million in 1999 as compared to $6.6 million for the full year 1998. This increase was primarily the result of increased interest expense associated with the issuance of the Company's $150 million in principal amount of 7⅜% Senior Notes due 2008 in August 1998 (the "Senior Notes") and a decrease in interest expense capitalized during the year.

Amortization and other, net was $1.9 million of expense in 1999, as compared to income of $37,000 in 1998. This change was primarily the result of recording a foreign currency exchange loss of $1.0 million in 1999 versus a foreign currency exchange gain of $0.9 million in 1998. These foreign currency gains and losses are largely attributable to fluctuations in the Canadian to U.S. dollar exchange rate. The exchange rate was 1.44 and 1.53, Canadian dollars to U.S. dollars, at December 31, 1999 and December 31, 1998, respectively. Amortization expense remained approximately the same in 1999 as compared to 1998.

For the year ended December 31, 1999, the Company recognized a tax benefit of $0.3 million resulting from the recognition of non-recurring charges in cost of goods sold and restructuring and other charges. Excluding the effect of the tax benefit and the associated non-recurring and restructuring and other charges recognized in both years, the effective tax rate would have been 35.3% in 1999 and 35.7% in 1998.

During the year ended December 31, 1999, the Company recognized a charge for the cumulative effect of a change in accounting principle of $8.0 million pre-tax ($5.8 million after tax). The Company adopted the American Institute of Certified Public Accountants Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities* (the "Statement"). The implementation of the Statement required the Company to write-off the remaining start-up costs relating primarily to the Company's Roxboro, North Carolina, Jackson, Tennessee and Shanghai, China facilities. See "Start-Up Costs" section below.

Consolidated net loss in 1999 was $4.0 million, or $0.32 loss per diluted share, compared to consolidated net income of $24.6 million or $1.72 per diluted share in 1998. Excluding the non-recurring charges included in cost of goods sold and restructuring and other charges recognized in both years, and the cumulative effect of an accounting change recognized in 1999, consolidated net income and diluted earnings per share for 1999 would have been $23.2 million and $1.73, respectively, compared to $33.5 million and $2.34, respectively, in the prior year period.

## RESTRUCTURING AND OTHER CHARGES

### 1998 Restructuring and Other Charges

In 1998, the Company recognized restructuring and other charges of approximately $11.9 million ($7.5 million after tax). This charge included $7.4 million in expenses related to the closing of the Company's Greenville, Mississippi facility (further described below), of which $5.6 million in expenses related to the write-down of impaired assets resulting primarily from the closing of this facility; $2.3 million in expenses for the write-down of impaired assets related to the discontinuation of casting at the Company's North Carolina facility; $0.4 million of other costs related to the discontinuation of the casting process at the North Carolina facility; $0.9 million in expenses related to the implementation of a salaried workforce reduction program (further described below); and $0.9 million in professional fees and other costs primarily associated with an acquisition that was not completed. See Note 16 to the Notes to Consolidated Financial Statements.

During the third quarter of 1998, the Company implemented plans to close the Greenville, Mississippi fabricated products facility. The closing of this facility was completed in early November 1998, and the approximately 140 employees received severance pay in accordance with the Severance Plan and also received their regular pay for 60 days subsequent to the notice of closure. The Company realized approximately $2.5 million in reduced salary and related expenses in 1999 and 2000 as a result of the closure of this facility. Implementation of the plan to close this facility resulted in an approximate $8.8 million charge, of which $7.4 million was included in restructuring and other charges and $1.4 million was included in cost of goods sold. Primary components of the charge relating to closing the Greenville, Mississippi, facility included $5.6 million related to the write-down of impaired fixed assets, $1.6 million primarily related to severance costs and $1.5 million primarily related to other asset write-downs and operating inefficiencies resulting from the closure of this facility.

During the third quarter of 1998, the Company implemented a work force reduction program of approximately 50 salaried positions from various locations and departments, which was primarily aimed at reducing administrative costs. Each terminated employee's severance pay was, in general, calculated in accordance with the Severance Plan. The Company realized approximately $2.0 million in reduced salary and related expenses in 1999 and 2000 as a result of this workforce reduction. Implementation of the workforce reduction program resulted in an approximate $0.9 million charge that was recognized in the third quarter of 1998. The primary components of the charge relating to the work force reduction program included approximately $0.8 million relating to severance and vacation pay and $0.1 million related to professional fees and miscellaneous expenses resulting from the workforce reductions.

### 1999 Restructuring and Other Charges

In 1999, the Company recognized restructuring and other charges of $19.9 million ($12.5 million net of tax). This charge included $10.0 million in expenses relating to the announced closing of the Company's Roxboro, North Carolina facility which was completed by June 2000, of which $8.6 million in expenses related to the write-down of impaired assets; $2.8 million in expenses related to the implementation of an indirect workforce reduction program of approximately 100 employees (further described below); $3.6 million in expenses related to impaired assets due to relocating machinery from Roxboro to the Company's other facilities and thereby displacing existing equipment and necessitating changes in production; $1.9 million in expenses related to previously closed facilities, of which $1.8 million related to the write-down of impaired assets; $0.8 million in expense related to the termination of an interest rate swap; and $0.8 million in professional fees and other costs, primarily associated with acquisitions that were not completed. To date, the Company has paid approximately $4.8 million in cash related to the restructuring. The Company believes the accrued restructuring costs of $0.2 million at December 31, 2000, represents its remaining cash obligations. See Note 16 of the Notes to Consolidated Financial Statements.

During the third quarter of 1999, the Company implemented an indirect workforce reduction program of approximately 100 employees. Each terminated employee's severance pay was, in general, calculated in accordance with a Severance Pay Plan (the "Severance Plan"), which provides benefits to all eligible employees who have at least one year of service and who are terminated for reasons other than cause. Severance benefits include payment of all accrued vacation and two weeks' pay at the employee's current base salary plus one week's pay for each full year of continuous service, less applicable taxes and withholding, not to exceed 26 weeks. At the end of the fourth quarter of 1999, the implementation of the indirect workforce reduction program was substantially complete. The Company realized approximately $2.5 million in reduced salary and related expenses in 2000 as a result of this workforce reduction. Implementation of the workforce reduction program resulted in an approximate $2.8 million charge that was recognized in the third quarter of 1999. The primary components of this charge relating to the indirect workforce reduction program included approximately $2.1 million relating to severance and vacation pay and $0.7 million in increased post-retirement medical and life insurance benefits.

As part of the Company's strategic planning, it evaluates the operating performance and results of both its products and manufacturing facilities. Such planning and evaluation may result in the Company recognizing certain reorganization and restructuring charges sometime in 2001 in the range of $3.0 to $4.0 million.

### Start-Up Costs

Effective January 1, 1999, the Company adopted Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities* ("SOP 98-5"), as issued by the the American Institute of Certified Public Accountants, which requires that certain costs related to start-up activities be expensed as incurred. In accordance with the provisions of SOP 98-5, the Company recognized a charge for the cumulative effect of a change in accounting principle of $8.0 million pre-tax ($5.8 million after tax). The implementation of SOP 98-5 required the Company to write-off the remaining deferred start-up costs relating primarily to the Company's Roxboro, North Carolina; Jackson, Tennessee; and Shanghai, China facilities.

Prior to January 1, 1999, the Company capitalized pre-operating costs associated with the start-up of new operations to the extent that such costs (i) could be separately identified and segregated from ordinary period costs; (ii) provide a quantifiable benefit to a future period; and, (iii) were directly attributable to the quantifiable benefit within a relatively short period of time after the costs were incurred. Pre-operating costs were comprised of certain expenditures such as payroll, travel and other costs incurred during the pre-operating period. The pre-operating period was defined as the period prior to the commencement of production of products manufactured for sale to customers. These capitalized costs were generally being amortized on a straight-line basis over a five-year period.

The following table sets forth the activity in capitalized start-up costs for the years ended December 31:

| *(In thousands)* | 1998 | 1997 |
|---|---|---|
| Capitalized start-up costs at the beginning of the year | $2,162 | $2,751 |
| Jackson, Tennessee start-up costs | 4,414 | – |
| Shanghai, China start-up costs | 2,114 | – |
| Other start-up costs | – | 169 |
| Amortization expense | (725) | (758) |
| Capitalized start-up costs at the end of the year | $7,965 | $2,162 |

The effect on operations of capitalizing start-up costs in 1997 and 1998, rather than expensing the costs as incurred as now required under SOP 98-5, was to increase (decrease) pre-tax income for the years ended December 31, 1999, 1998 and 1997, by ($8.0) million, $5.8 million and ($0.6) million, respectively. Had the Company expensed start-up costs as incurred, net income for the years ended December 31, 1999, 1998 and 1997, would have been $1.8 million, $20.2 million and $26.2 million, respectively, as compared to reported net income (loss) for the years ended December 31, 1999, 1998 and 1997, of ($4.0) million, $24.6 million and $25.8 million, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities is the Company's primary source of liquidity and totaled $36.5 million, $18.9 million and $35.8 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in net cash provided by operating activities in 2000 as compared to 1999 was due primarily to an increase in net income, and the change in deferred tax liabilities and refundable income taxes recorded in 2000 versus 1999 and 1998. Income increased $6.8 million, comparing $23.5 million of net income in 2000 versus a ($4.0) million net loss in 1999, and the 1999 non-cash portion of restructuring and other charges of $14.9 million and the 1999 cumulative effect of an accounting change of $5.8 million. The change in deferred tax liabilities was a source of $3.6 million cash in 2000 versus a use of $5.9 million cash in 1999. In 2000, the Company had refundable income taxes of $10.8 million, related primarily to the overpayment of 2000 estimated tax payments and refunds associated with prior year tax returns. In 1999, the Company recorded a $9.5 million income tax receivable, primarily attributable to the overpayment of 1999 estimated tax payments. The ratio of current assets to current liabilities was 3.1 in 2000 and 3.4 in 1999. The current ratio decreased in 2000 over 1999 due primarily to increased accounts payable.

The decrease in net cash provided by operating activities in 1999 as compared to 1998 was primarily due to the decrease in net income, exclusive of the 1999 non-cash portion of restructuring and other charges and the 1999 cumulative effect of an accounting change. The ratio of current assets to current liabilities was 3.4 in 1999 and 4.7 in 1998. The current ratio decreased in 1999 over 1998 due primarily to decreased cash and equivalents resulting from the net reduction of borrowings under the various credit facilities, a decrease in inventories and an increase in short-term borrowing.

The Company has a $200 million Revolving Credit Facility (the "Facility"), which matures on April 30, 2002. The Facility provides for a floating base interest rate that is, at the Company's election, either (a) the higher of the federal funds effective rate plus 0.50% and the prime rate or (b) LIBOR plus a specified margin (determined with reference to the Company's ratio of total debt to EBITDA and the Company's debt rating as determined by the Standard & Poor's and Moody's Rating Services) of 0.25% to 1.00%. Commitment fees on the unused available portion of the Facility range from 0.10% to 0.50%. As of December 31, 2000, the Company had approximately $85 million in outstanding borrowings and obligations under the Facility and approximately $115 million in additional borrowing availability thereunder. As of December 31, 1999, the Company had approximately $34 million in outstanding borrowings and obligations under the Facility and approximately $166 million in additional borrowing availability thereunder. The amount of outstanding borrowings under the Facility increased in 2000 as compared to 1999, primarily as a result of the acquisition of the joining products business of Engelhard Corporation in September of 2000 for approximately $41.8 million. The Company intends to refinance the Facility with a similar type facility prior to April 30, 2002. There are other credit facilities available to the Company. See Note 6 of the Notes to Consolidated Financial Statements.

Capital expenditures were $35.5 million in 2000, $24.1 million in 1999 and $34.7 million in 1998. The Company currently expects to spend approximately $35 to $40 million in 2001 under its capital improvement program. The Company's 2001 capital improvement program includes asset replacement, environmental compliance and asset improvement items, as well as plans to build a facility in Portugal. See "Subsequent Events" below.

Over the period from 1998 to 2000, the Company purchased 2,179,900 shares of the Company's outstanding common stock in the open market for a total of $39.5 million. The impact on diluted earnings per share of purchasing the shares, assuming the weighted average borrowing rate under the Facility and the effective U.S. tax rate of each respective year, is a favorable impact of $0.18 and $0.04 per share for 2000 and 1998, respectively. In 1999, the Company's loss per diluted common share was an additional $0.13 per share unfavorable. Under the stock repurchase program approved by the Board of Directors on April 6, 2000, and extended on February 23, 2001, the Company is authorized to purchase an additional 820,100 shares of the Company's stock through the period ending March 31, 2002.

The Company believes that it will be able to satisfy its existing working capital needs, interest obligations, stock repurchases and capital expenditure requirements with cash flow from operations and funds available under the Facility.

### Senior Notes Due 2008

In August 1998, the Company issued $150 million in principal amount of the Senior Notes. The Senior Notes were issued pursuant to an Indenture, dated as of August 4, 1998, between the Company and First Union National Bank, as Trustee. The net proceeds from the sale of the Senior Notes were applied to reduce borrowings by approximately $58 million under the Facility. Of the remaining net proceeds, the Company used the remainder for capital expenditures, working capital and other general corporate purposes. The Senior Notes (i) have interest payment dates on February 1 and August 1 of each year, which commenced February 1, 1999; (ii) are redeemable at the option of the Company at a redemption price equal to the greater of (a) 100% of the principal amount of the Senior Notes to be redeemed, or (b) the sum of the present value of the remaining scheduled payments of principal and interest thereon from the redemption date to the maturity date, discounted to the redemption date on a semiannual basis at the Treasury Rate plus 25 basis points,

plus, in each case, accrued interest thereon to the date of redemption; (iii) are senior unsecured obligations of the Company and are *pari passu* in right of payment with any existing and future senior unsecured indebtedness of the Company, including borrowings under the Facility; (iv) are guaranteed by certain of the Company's subsidiaries; and (v) are subject to the terms of the Indenture, which contains certain covenants that limit the Company's ability to incur indebtedness secured by certain liens and to engage in sale/leaseback transactions.

## MARKET RISKS

The Company is exposed to various market risks, including changes in interest rates, commodity prices and foreign currency rates. Market risk is the potential loss arising from adverse changes in market rates and prices. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes. In the ordinary course of business, the Company enters into various types of transactions involving financial instruments to manage and reduce the impact of changes in interest rates, commodity prices and foreign exchange rates.

### Interest Rate Risk

The fair market value of long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of the Company's total long-term debt at December 31, 2000, was $130.4 million versus $131.6 million at December 31, 1999. A 1% increase from prevailing interest rates would result in a decrease in fair value of total long-term debt by approximately $7.0 million at December 31, 2000, and $7.7 million at December 31, 1999. Conversely, interest rate changes generally do not affect the fair market value of variable rate debt but will impact future earnings and cash flows, assuming all other factors are held constant. The annual pre-tax earnings and cash flow impact resulting from a one percentage point increase in interest rates, assuming the amount of outstanding debt and the interest rates in effect at December 31, 2000 and December 31, 1999 would be approximately $0.9 million and $0.4 million, respectively.

### Commodity Price Risk

In connection with the purchase of certain raw materials, principally copper, on behalf of certain customers for future manufacturing requirements, the Company has entered into commodity forward contracts as deemed appropriate for these customers to reduce the Company's risk of future price increases. At December 31, 2000, the Company had entered into contracts hedging certain future commodity purchases through December 2001 of $32.7 million. At December 31, 1999, the Company had entered into contracts hedging certain commodity purchases through May 2001 of $32.6 million. The estimated fair value of these outstanding contracts was approximately $31.8 million at December 31, 2000 and $38.3 million at December 31, 1999. The effect of a 10% adverse change in commodity prices would change the estimated fair value of these outstanding contracts to $28.6 million and $34.5 million at December 31, 2000 and December 31, 1999, respectively.

In connection with the purchase of natural gas, the Company has entered into commodity futures and options to buy and sell natural gas for the period of January 2001 through March 2001. These contracts are accounted for as hedges and, accordingly, realized gains and losses are recognized in cost of goods sold upon settlement. At December 31, 2000, the Company had an open position of $0.3 million and an unrealized gain of $0.2 million associated with these futures and options, based on future prices at December 31, 2000.

### Foreign Currency Risk

Certain of the Company's operations use foreign exchange forwards to hedge fixed purchase and sales commitments denominated in a foreign currency. The Company's foreign currency exposures relate primarily to nonfunctional currency assets and liabilities denominated in French and German currencies, including the euro.

The Company does not enter forward exchange contracts for trading purposes. Realized gains and losses on the contracts are included in other income and expense. The Company mitigates the risk that counter parties to these over-the-counter agreements will fail to perform by only entering into agreements with major international financial institutions.

At December 31, 2000, the Company had forward exchange contracts outstanding to purchase foreign currency with a notional value of $3.2 million and to sell foreign currency with a notional value of $1.9 million. In 2000, the Company had an unrealized loss of $16,800 associated with these forward contracts. The potential loss in fair value for these forward contracts from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be approximately $0.5 million.

At December 31, 1999, the Company was not a party to any material contract relating to foreign currency forward agreements.

## ENVIRONMENTAL

The Company's facilities and operations are subject to extensive environmental laws and regulations. During the year ended December 31, 2000, the Company spent approximately $0.4 million on environmental matters, which include remediation costs, monitoring costs and legal and other costs. The Company has a

reserve of $2.2 million for environmental remediation costs, which is reflected in the Company's Consolidated Balance Sheet. The Company has approved and intends to spend $1.7 million for capital expenditures relating to environmental matters during 2001. Based upon information currently available, the Company believes that the costs of the environmental matters described below are not reasonably likely to have a material adverse effect on the Company's business, financial condition or results of operations.

### Oklahoma City, Oklahoma

The Company is one of a number of Potentially Responsible Parties ("PRPs") named by the United States Environmental Protection Agency (the "EPA") with respect to the soil and groundwater contamination at the Double Eagle Refinery Superfund site in Oklahoma City, Oklahoma. The costs associated with the cleanup of this site will be entirely borne by the PRPs, as the site owner has filed for bankruptcy protection. In March 1993, twenty-three PRPs named with respect to the soil contamination of the site, including the Company, submitted a settlement offer to the EPA. Settlement negotiations between the PRPs and the EPA are continuing, and a settlement and consent order is currently being contemplated among the PRPs, the EPA, the Department of Justice and the State of Oklahoma which would provide for each PRP's liability to be limited to a prorata share of an aggregate amount based on the EPA's worst-case cost scenario to remediate the site. Under the current proposal, the Company's settlement amount is estimated to be $0.4 million.

### Decatur, Alabama

In 1999, the Company negotiated a new Consent Order under Section 3008(h) of the Resource Conservation and Recovery Act (the "Order"). The Order incorporated the Corrective Measures Study ("CMS") submitted to the EPA regarding a waste burial site at the Decatur, Alabama facility. The Order also included an upgrade to an existing chrome groundwater remediation system. The CMS proposes current monitoring and site maintenance. The remaining monitoring, legal, and other costs related to the ground water remediation project are estimated to be $0.8 million. The cost to the Company to comply with the CMS, as currently approved, is not expected to have an adverse effect on the Company's business, financial condition or results of operations.

In July of 2000, the Company notified the Alabama Department of Environmental Management of low levels of certain volatile organic compounds and petroleum hydrocarbons detected in the groundwater at the Decatur, Alabama facility during the expansion of the facility. The Company expects to further define the extent of any contamination and execute any necessary remedies once construction in the area is completed.

### Ardmore, Tennessee

On December 28, 1995, the Company entered into a Consent Order and Agreement with the Tennessee Division of Superfund (the "Tennessee Division"), relating to the Ardmore, Tennessee facility (the "Ardmore facility"), under which the Company agreed to conduct a preliminary investigation regarding whether volatile organic compounds detected in and near the municipal drinking water supply are related to the Ardmore facility and, if necessary, to undertake an appropriate response. That investigation has disclosed contamination, including elevated concentrations of certain volatile organic compounds, in soils of certain areas of the Ardmore facility and also has disclosed elevated levels of certain volatile organic compounds in the shallow residuum groundwater zone at the Ardmore facility. Under the terms of the Consent Order and Agreement, the Company submitted a Remedial Investigation and Feasibility Study ("RI/FS") work plan, which was accepted by the Tennessee Division, and the Company has initiated the RI/FS. The Tennessee Division approved the Groundwater Assessment Plan (as a supplement to the RI/FS) and additional groundwater sampling to determine the lateral and vertical extent of possible contamination began in July 2000. The data from the groundwater assessment, the subsequent risk assessment and a preliminary review of remedial alternatives will complete the RI/FS portion of the project. It is anticipated that the RI/FS will be submitted to the Tennessee Division in 2001. A Corrective Measures Study will follow the RI/FS and will recommend any required remediation. Based on recent testing efforts at the facility and the available information, the Company preliminarily estimates a range of between $0.7 million and $1.8 million to complete the investigation and develop the remediation plans for this site.

A report of a 1995 EPA site inspection of the Ardmore facility recommended further action for the site. The Company believes, however, that because the Tennessee Division is actively supervising an ongoing investigation of the Ardmore facility, it is unlikely that the EPA will intervene and take additional action. If the EPA should intervene, however, the Company could incur additional costs for any further investigation or remedial action required.

### Greenville, Mississippi

Following the Company's acquisition of its Greenville, Mississippi facility (the "Greenville facility"), a preliminary investigation disclosed certain volatile organic compounds in soil and groundwater at the site. The Company entered into a consent agreement with the Mississippi Department of Environmental Quality ("MDEQ") on July 15, 1997. Remediation efforts began in the third quarter of 1997 and were expected to take approximately three years. The Company recently submitted a report of remediation activities and requested that the MDEQ allow it to cease active remediation and begin post-closure monitoring. However, there can be no assurance that remediation efforts will be allowed to be permanently

discontinued, and operations, maintenance and other expenses of the remediation system may continue for a longer period of time. Through October 3, 1998, applicable costs of testing and remediation required at the Greenville facility had been shared with the former owners of the facility pursuant to the terms of an Escrow Agreement established at the time the facility was acquired. Subsequent to October 3, 1998, the Company released the former owners of the facility from liability related to the remediation of the Greenville facility following the receipt of a $145,000 settlement payment. The Company estimates the remaining investigative and remedial costs could total $0.1 million under the remediation plan the Company adopted, but these costs could increase if additional remediation is required.

The Company has previously entered into the Mississippi Brownfield Program for industrial site redevelopment. The Company has delineated the Brownfield site, prepared and submitted a Brownfields Contingency Monitoring Plan, and is implementing passive remediation at the site. The Company anticipates long-term monitoring of the site to continue until the concentration of contaminants reach the MDEQ target goals.

### Jackson, Tennessee

During the Company's acquisition of its Jackson, Tennessee facility (the "Jackson facility"), the Company became aware of a preexisting Environmental Site Assessment which identified volatile organic contamination in the soil and/or groundwater at the facility; however, the extent of any such contamination was not fully determined. Further, the Tennessee Department of Environment and Conservation ("TDEC") had issued an order that identified a prior owner of the property as having caused or allowed the release of contaminants at the site and required the prior owner to conduct an investigation of the contamination. The prior owner has proceeded pursuant to the order and is continuing to do so. Using information available at the time, the Company estimated that remediation of the identified contamination, if required, could cost up to $750,000. Discussions with the TDEC, however, indicate that the TDEC intends to require the prior owner to continue to monitor conditions at the site and that remediation of the site is not expected to be necessary. Based on these discussions, a review of the ongoing investigation, and an awareness of the indemnity provisions included in the agreement by which the Company acquired the Jackson facility, the Company does not believe that significant expenditures by the Company for remediation of the site will be required. Therefore, the Company has reduced the previous accrued reserve to zero at December 31, 2000.

### Altoona, Pennsylvania

With respect to the Altoona, Pennsylvania facility, the Company has entered into the State of Pennsylvania Department of Environmental Protection Act II Program (the "Program"). The Program was entered to address issues of contamination from closed hazardous waste lagoons and oil contamination of soil at such facility. The hazardous waste lagoons were closed in 1982. The Program is a voluntary site remediation program, which allows the Company to direct the site evaluation and any eventual remediation. Preliminary costs are estimated at $0.2 million to complete the investigation phase of the Program. Once the investigation phase is completed, a decision on remediation (if any) will be made. Insufficient information exists at this point to estimate any remediation costs or if remediation will be required. It is the Company's position that the previous owner indemnified the Company for any liability in the matter. The Company is pursuing this indemnification with Millennium Chemicals (formerly National Distillers) and thus no liability has been recorded at December 31, 2000.

### Other

The Company has been named as a party in a Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") lawsuit by Southdown Environmental Services ("Southdown") and Allworth, Inc. ("Allworth"). The Company is named with approximately 200 other companies (collectively, with the Company, the "Group") in the suit. The Company, along with the other members of the Group, contracted with Allworth, and subsequently Southdown, for treatment, storage and disposal of hazardous wastes between 1978 and 1995. The suit seeks compensation from the Group for costs related to environmental cleanup incurred by Southdown, and potentially Allworth, at the site in Birmingham, Alabama. The site is presently owned by Philips Services Corporation ("Philips"). To date, the Company has only incurred legal fees associated with this matter. Negotiations have been ongoing, unsuccessfully, between Philips, Southdown and Allworth to reach a settlement. The Company's potential share of liability, if any, is unknown at this point. Summary judgement was granted in favor of the Company and the lawsuit against the Company was dismissed. Allworth has subsequently filed an appeal of the dismissal.

### Subsequent Events

In March 2001, the Company announced its plan to build a 33,000-square-foot technical tube facility in Esposende, Portugal. The Company expects to invest approximately $9 million in the facility, which will initially have the capacity to produce five to six million pounds per year and will employ approximately 60 people. The Company expects to begin production in the fourth quarter of 2001 for customer qualification and commence commercial production for sale to customers in the first quarter of 2002.

## IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 1, Recent Accounting Pronouncements, of the Notes to Consolidated Financial Statements.

# Consolidated Statements of Operations

Wolverine Tube, Inc. and Subsidiaries

| | Year ended December 31, | | |
|---|---|---|---|
| | **2000** | 1999 | 1998 |
| *(In thousands except per share amounts)* | | | |
| Net sales | **$700,176** | $645,774 | $617,512 |
| Cost of goods sold | **615,948** | 579,030 | 534,799 |
| Gross profit | **84,228** | 66,744 | 82,713 |
| Selling, general and administrative expenses | **34,411** | 30,777 | 26,328 |
| Restructuring and other charges | **–** | 19,938 | 11,867 |
| Income from operations | **49,817** | 16,029 | 44,518 |
| Other (income) expenses: | | | |
| Interest expense, net | **13,098** | 12,608 | 6,566 |
| Amortization and other, net | **(34)** | 1,941 | (37) |
| Income before income taxes and cumulative effect of accounting change | **36,753** | 1,480 | 37,989 |
| Income tax provision (benefit) | **13,278** | (289) | 13,352 |
| Income before cumulative effect of accounting change | **23,475** | 1,769 | 24,637 |
| Cumulative effect of accounting change, net of income tax benefit of $2,211 | **–** | (5,754) | – |
| Net income (loss) | **23,475** | (3,985) | 24,637 |
| Less preferred stock dividends | **(280)** | (280) | (280) |
| Net income (loss) applicable to common shares | **$ 23,195** | $ (4,265) | $ 24,357 |
| Earnings per common share – basic: | | | |
| Income before cumulative effect of accounting change | **$ 1.91** | $ 0.11 | $ 1.74 |
| Cumulative effect of accounting change | **–** | (0.44) | – |
| Net income (loss) per common share – basic | **$ 1.91** | $ (0.33) | $ 1.74 |
| Basic weighted average number of common shares | **12,153** | 13,106 | 14,025 |
| Earnings per common share – diluted: | | | |
| Income before cumulative effect of accounting change | **$ 1.88** | $ 0.11 | $ 1.72 |
| Cumulative effect of accounting change | **–** | (0.43) | – |
| Net income (loss) per common share – diluted | **$ 1.88** | $ (0.32) | $ 1.72 |
| Diluted weighted average number of common and common equivalent shares | **12,344** | 13,243 | 14,186 |

*See accompanying notes.*

# Consolidated Balance Sheets

Wolverine Tube, Inc. and Subsidiaries

| | December 31, | |
|---|---|---|
| | **2000** | 1999 |
| *(In thousands except share and per share amounts)* | | |
| **Assets** | | |
| Current assets | | |
| Cash and equivalents | **$ 23,458** | $ 26,894 |
| Accounts receivable, net | **105,025** | 84,440 |
| Inventories | **108,164** | 95,368 |
| Refundable income taxes | **10,769** | 9,511 |
| Prepaid expenses and other | **2,591** | 1,415 |
| Total current assets | **250,007** | 217,628 |
| Property, plant and equipment, net | **215,491** | 190,774 |
| Deferred charges and intangible assets, net | **111,723** | 91,772 |
| Assets held for resale | **5,381** | – |
| Prepaid pensions | **7,753** | 6,515 |
| Total assets | **$590,355** | $506,689 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | **$ 51,904** | $ 35,464 |
| Accrued liabilities | **18,229** | 14,772 |
| Deferred income taxes | **1,493** | – |
| Short-term borrowings | **10,057** | 12,948 |
| Total current liabilities | **81,683** | 63,184 |
| Deferred income taxes | **21,190** | 19,225 |
| Long-term debt | **231,163** | 180,718 |
| Postretirement benefit obligation | **17,272** | 16,953 |
| Accrued environmental remediation | **2,165** | 2,590 |
| Total liabilities | **353,473** | 282,670 |
| Commitments and contingencies | | |
| Minority interest | **2,508** | 2,381 |
| Redeemable cumulative preferred stock, par value $1 per share; 20,000 shares issued and outstanding at December 31, 2000 and 1999 | **2,000** | 2,000 |
| Stockholders' equity | | |
| Cumulative preferred stock, par value $1 per share; 500,000 shares authorized | **–** | – |
| Common stock, par value $0.01 per share; 40,000,000 shares authorized, 14,214,318 and 14,196,289 shares issued as of December 31, 2000 and 1999, respectively | **142** | 142 |
| Additional paid-in capital | **103,589** | 102,654 |
| Retained earnings | **183,048** | 159,853 |
| Unearned compensation | **(613)** | (309) |
| Accumulated other comprehensive loss | **(14,320)** | (10,688) |
| Treasury stock, at cost (2,179,900 and 1,642,300 shares as of December 31, 2000 and 1999, respectively) | **(39,472)** | (32,014) |
| Total stockholders' equity | **232,374** | 219,638 |
| Total liabilities, minority interest, redeemable cumulative preferred stock and stockholders' equity | **$590,355** | $506,689 |

*See accompanying notes.*

# Consolidated Statements of Stockholders' Equity

Wolverine Tube, Inc. and Subsidiaries

| | Redeemable Cumulative Preferred Stock | | Common Stock | | Additional Paid-In Capital | Retained Earnings | Unearned Compen-sation | Accumu-lated Other Compre-hensive Income (Loss) | Treasury Stock | Total Stock-holders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | | |
| *(In thousands except number of shares)* | | | | | | | | | | |
| Balance at December 31, 1997 | 20,000 | $2,000 | 14,069,064 | $141 | $100,064 | $143,073 | $ – | $(10,515) | $ – | $232,763 |
| Postretirement benefit obligation adjustment (Note 8) | – | – | – | – | – | (3,312) | – | – | – | (3,312) |
| Restated balance at December 31, 1998 | 20,000 | 2,000 | 14,069,064 | 141 | 100,064 | 139,761 | – | (10,515) | – | 229,451 |
| Comprehensive income: | | | | | | | | | | |
| Net income | – | – | – | – | – | 24,637 | – | – | – | 24,637 |
| Translation adjustments | – | – | – | – | – | – | – | (4,979) | – | (4,979) |
| Comprehensive income | | | | | | | | | | 19,658 |
| Common stock issued | – | – | 77,996 | – | 1,177 | – | – | – | – | 1,177 |
| Tax benefit from stock options exercised | – | – | – | – | 273 | – | – | – | – | 273 |
| Preferred stock dividends | – | – | – | – | – | (280) | – | – | – | (280) |
| Purchase of treasury stock | – | – | – | – | – | – | – | – | (16,628) | (16,628) |
| Balance at December 31, 1998 | 20,000 | 2,000 | 14,147,060 | 141 | 101,514 | 164,118 | – | (15,494) | (16,628) | 233,651 |
| Comprehensive income: | | | | | | | | | | |
| Net loss | – | – | – | – | – | (3,985) | – | – | – | (3,985) |
| Translation adjustments | – | – | – | – | – | – | – | 4,806 | – | 4,806 |
| Comprehensive income | | | | | | | | | | 821 |
| Common stock issued | – | – | 49,229 | 1 | 283 | – | – | – | – | 284 |
| Tax benefit from stock options exercised | – | – | – | – | 308 | – | – | – | – | 308 |
| Preferred stock dividends | – | – | – | – | – | (280) | – | – | – | (280) |
| Issuance of restricted stock award and amortization of unearned compensation | – | – | – | – | 549 | – | (309) | – | – | 240 |
| Purchase of treasury stock | – | – | – | – | – | – | – | – | (15,386) | (15,386) |
| Balance at December 31, 1999 | 20,000 | 2,000 | 14,196,289 | 142 | 102,654 | 159,853 | (309) | (10,688) | (32,014) | 219,638 |
| **Comprehensive income:** | | | | | | | | | | |
| **Net income** | – | – | – | – | – | 23,475 | – | – | – | 23,475 |
| **Translation adjustments** | – | – | – | – | – | – | – | (3,632) | – | (3,632) |
| **Comprehensive income** | | | | | | | | | | 19,843 |
| **Common stock issued** | – | – | 18,029 | – | 58 | – | – | – | – | 58 |
| **Tax benefit from stock options exercised** | – | – | – | – | 3 | – | – | – | – | 3 |
| **Preferred stock dividends** | – | – | – | – | – | (280) | – | – | – | (280) |
| **Issuance of restricted stock award and amortization of unearned compensation** | – | – | – | – | 874 | – | (304) | – | – | 570 |
| **Purchase of treasury stock** | – | – | – | – | – | – | – | – | (7,458) | (7,458) |
| **Balance at December 31, 2000** | **20,000** | **$2,000** | **14,214,318** | **$142** | **$103,589** | **$183,048** | **$(613)** | **$(14,320)** | **$(39,472)** | **$232,374** |

*See accompanying notes.*

# Consolidated Statements of Cash Flows

Wolverine Tube, Inc. and Subsidiaries

| *(In thousands)* | Year ended December 31, 2000 | 1999 | 1998 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income (loss) | **$23,475** | $(3,985) | $24,637 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation | **14,842** | 13,600 | 14,635 |
| Amortization | **3,090** | 2,848 | 2,685 |
| Deferred income taxes | **3,627** | (5,948) | (1,375) |
| Noncash portion of restructuring and other charges | **–** | 14,920 | 8,174 |
| Loss on sale of equipment | **–** | 1,024 | 88 |
| Cumulative effect of accounting change | **–** | 5,754 | – |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | **(14,674)** | (7,456) | 3,946 |
| Inventories | **(11,043)** | 14,522 | (20,989) |
| Refundable income taxes | **(1,035)** | (8,672) | – |
| Prepaid expenses and other | **1,343** | 732 | (2,125) |
| Accounts payable | **18,167** | (11,073) | (460) |
| Accrued liabilities, including pension, postretirement benefit and environmental | **(1,277)** | 2,665 | 6,551 |
| Net cash provided by operating activities | **36,515** | 18,931 | 35,767 |
| **Investing Activities** | | | |
| Additions to property, plant and equipment | **(35,455)** | (24,125) | (34,694) |
| Acquisition of business assets | **(43,948)** | (6,427) | (35,431) |
| Other | **21** | (452) | (385) |
| Net cash used for investing activities | **(79,382)** | (31,004) | (70,510) |
| **Financing Activities** | | | |
| Financing fees | **–** | – | (1,829) |
| Net borrowing (repayment) from revolving credit facilities | **50,291** | (25,345) | (31,999) |
| Principal payments on long-term debt | **(2,392)** | (335) | (374) |
| Proceeds from issuance of long-term debt | **–** | – | 149,683 |
| Issuance of common stock | **58** | 284 | 1,177 |
| Purchase of treasury stock | **(7,458)** | (15,386) | (16,628) |
| Dividends paid on preferred stock | **(280)** | (280) | (280) |
| Net cash provided by (used for) financing activities | **40,219** | (41,062) | 99,750 |
| Effect of exchange rate on cash and equivalents | **(788)** | 1,130 | (1,204) |
| Net increase (decrease) in cash and equivalents | **(3,436)** | (52,005) | 63,803 |
| Cash and equivalents at beginning of year | **26,894** | 78,899 | 15,096 |
| Cash and equivalents at end of year | **$23,458** | $26,894 | $78,899 |
| **Supplemental disclosure of cash flow:** | | | |
| Interest paid | **$15,163** | $16,119 | $ 5,275 |
| Income taxes paid | **$10,767** | $14,484 | $12,977 |
| **Noncash financing activities:** | | | |
| Tax benefit from stock options exercised | **$ 3** | $ 308 | $ 273 |

*See accompanying notes.*

## 1. Summary of Significant Accounting Policies

### Organization and Business

The accompanying consolidated financial statements include the accounts of Wolverine Tube, Inc. (the "Company") and its majority-owned subsidiaries after elimination of significant intercompany accounts and transactions.

The Company is engaged in the manufacturing and distribution of copper and copper alloy tubular products, fabricated products, brazing alloys, fluxes and lead-free solder as well as rod, bar and strip products. The Company's focus is developing and manufacturing high value-added products used in engineered applications which require tubular products that have superior heat transfer capability. The Company's major customers are primarily located in North America and include commercial and residential air conditioning and refrigeration equipment manufacturers, appliance manufacturers, automotive manufacturers, industrial equipment manufacturers, utilities and other power generating companies, refining and chemical processing companies and plumbing wholesalers.

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

### Revenue Recognition Policy

The Company records sales when products are shipped to customers. Title passes to the customer upon shipment. Sales are made under normal terms and generally do not require collateral.

### Start-Up Costs

Prior to adoption on January 1, 1999, of Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*, as issued by the American Institute of Certified Public Accountants, the Company capitalized pre-operating costs associated with the start-up of new operations to the extent that such costs i) could be separately identified and segregated from ordinary period costs; ii) provide a quantifiable benefit to a future period; and, iii) were directly attributable to the quantifiable benefit within a relatively short period of time after the costs were incurred. Pre-operating costs were comprised of certain expenditures such as payroll, travel and other costs incurred during the pre-operating period. The pre-operating period was defined as the period prior to the commencement of production of products manufactured for sale to customers. These capitalized costs were generally being amortized on a straight-line basis over a five-year period.

The following table sets forth the activity in capitalized start-up costs for the years ended December 31:

| *(In thousands)* | 1998 | 1997 |
|---|---|---|
| Capitalized start-up costs at the beginning of the year | $2,162 | $2,751 |
| Jackson, Tennessee start-up costs | 4,414 | – |
| Shanghai, China start-up costs | 2,114 | – |
| Other start-up costs | – | 169 |
| Amortization expense | (725) | (758) |
| Capitalized start-up costs at the end of the year | $7,965 | $2,162 |

In accordance with the Statement, the Company recognized a charge for the cumulative effect of a change in accounting principle of $8.0 million pre-tax ($5.8 million after-tax) in 1999.

### Cash and Equivalents

The Company considers all highly liquid financial instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

### Inventories

Inventories are stated at the lower of cost or market. Approximately 59% and 60% of the total consolidated inventories at December 31, 2000 and 1999, respectively, are stated on the basis of Last-in, First-out (LIFO) method. The remaining inventories, which primarily include supplies, are valued using the average cost method.

### Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation is provided using the straight-line method over the following periods:

| | |
|---|---|
| Furniture and fixtures | 2-9 years |
| Software | 3-5 years |
| Tooling | 3-10 years |
| Building and improvements | 3-39 years |
| Machinery and equipment | 5-25 years |

### Impairment of Long-Lived Assets

Impairment losses are recorded on long-lived assets used in operations where indicators of impairment are present and the undiscounted cash flows estimated to be generated by these assets are less than their carrying amount.

### Income Taxes

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Property, plant and equipment, inventories, prepaid pension, postretirement benefit obligations and certain other accrued liabilities are the primary sources of these temporary differences.

### Deferred Charges and Intangible Assets

Debt issuance costs are deferred and amortized over the term of the debt to which they relate using the interest method. Intangible assets consist of patents and goodwill. Patents are amortized on the straight-line method over their estimated lives. Excess cost over the fair value of net assets acquired (or enterprise level goodwill) generally is amortized on a straight-line basis over 40 years. The carrying value of enterprise level goodwill is reviewed if the facts and circumstances suggest that it may be impaired. Negative operating results, negative cash flows from operations, among other factors, could be indicative of the impairment of enterprise level goodwill. The Company assesses the recoverability of enterprise level goodwill by determining whether the unamortized goodwill balance can be recovered through undiscounted future results of operations. The amount of enterprise level goodwill impairment, if any, is measured based on projected discounted future cash flows using a discount rate reflecting the Company's average cost of funds. To date, the Company has made no adjustments to the carrying value of its enterprise level goodwill.

### Earnings Per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding and net income reduced by preferred dividends. Diluted net income per share is based on the weighted average number of common shares outstanding plus the effect of dilutive employee stock options and net income reduced by preferred dividends.

### Fair Values of Financial Instruments

The following methods are used by the Company in estimating fair value disclosures for financial instruments:

*Cash and equivalents, accounts receivable and accounts payable:* The carrying amount reported in the consolidated balance sheets for these assets approximates their fair value.

*Financing arrangement, long-term debt and redeemable cumulative preferred stock:* The carrying amount of the Company's borrowings under its financing arrangement approximates its fair value. The fair value of the Company's 7⅜% Senior Notes and any derivative financial instruments are based upon quoted market prices. The fair value of the Company's redeemable cumulative preferred stock is based upon its dividend rate and call provisions. The fair value of the Company's 7⅜% Senior Notes and redeemable cumulative preferred stock was $130.4 million and $2.1 million, respectively, at December 31, 2000 and $131.6 million and $2.2 million, respectively, at December 31, 1999.

### Environmental Expenditures

Environmental expenditures that pertain to current operations and relate to future revenues are expensed or capitalized consistent with the Company's capitalization policy. Expenditures that result from the remediation of an existing condition caused by past operations, that do not contribute to future revenues, are expensed. Liabilities are recognized for remedial activities when the cleanup is probable and the cost can be reasonably estimated.

### Interest Rate Swaps

From time to time the Company enters into interest rate swap agreements to modify the interest characteristics of its outstanding debt. Each interest rate swap agreement is designated as a hedge with the principal balance and term of a specific debt obligation. These agreements involve the exchange of amounts based on a fixed interest rate for amounts based on variable interest rates over the life of the agreement, without an exchange of the notional amount on which the payments are based. The differential to be paid as interest rates change is accrued and recognized as an adjustment of interest expense related to debt (the accrual accounting method). The fair value of the swap agreements and changes in the fair value as a result of changes in market interest rates are not recognized in the financial statements.

Gains and losses on terminations of interest rate swap agreements are deferred as an adjustment to the carrying amount of the outstanding debt and amortized as an adjustment to interest expense related to the debt over the remaining term of the original contract life of the terminated swap agreement. In the event of the early extinguishment of a designated debt obligation, any realized or unrealized gain or loss from the swap would be recognized in income coincident with the extinguishment gain or loss. The Company mitigates the risk that counter parties to these over-the-counter agreements will fail to perform by only entering into agreements with major international financial institutions.

The Company was not a party to any interest rate swap agreements at December 31, 2000, or December 31, 1999.

### Derivative Commodity Instruments

In connection with the purchase of certain raw materials, principally copper, on behalf of certain customers for future manufacturing requirements, the Company has entered into commodity forward contracts as deemed appropriate for these customers to reduce the Company's risk of future price increases. These forward contracts are accounted for as hedges and, accordingly, gains and losses are deferred and recognized in cost of goods sold as part of the product cost. The Company is exposed to loss on the forward contracts in the event of non-performance by the customers whose orders are covered by such contracts. However, the Company did not have any of its underlying sale transactions to fail to occur in the year ended December 31, 2000, or December 31, 1999. At December 31, 2000, the Company had entered into contracts hedging certain future commodity purchases through December 2001 of approximately $32.7 million. The estimated fair value of these outstanding contracts, based on the COMEX forward price, was approximately $31.8 million at December 31, 2000.

In connection with the purchase of natural gas, the Company has entered into commodity futures and options to buy and sell natural gas for the period of January 2001 through March 2001. These contracts are accounted for as hedges and, accordingly, realized gains and losses are recognized in cost of goods sold upon settlement. At December 31, 2000, the Company had an open position of $0.3 million and an unrealized gain of $0.2 million associated with these futures and options, based on future prices at December 31, 2000.

### Foreign Currency Forwards

Certain of the Company's operations use foreign currency exchange forwards to hedge fixed purchase and sales commitments denominated in a foreign currency. The Company's foreign currency exposures relate primarily to nonfunctional currency assets and liabilities denominated in French and German currencies, including the euro.

The Company does not enter into forward currency exchange contracts for trading purposes. Realized gains and losses on the contracts are included in other income and expense. The Company mitigates the risk that counter parties to these over-the-counter agreements will fail to perform by only entering into agreements with major international financial institutions.

At December 31, 2000, the Company had foreign currency forward exchange contracts outstanding to purchase foreign currency with a notional value of $3.2 million through December 2001 and to sell foreign currency with a notional value of $1.9 million through April 2001. The Company had an unrealized loss of $16,800 associated with these forward contracts, based on quoted forward market rates at December 31, 2000.

### Stock Options

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, encourages but does not require companies to record compensation costs for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. Accordingly, the Company recognizes no compensation for stock option grants.

### Translation to U.S. Dollars

Assets and liabilities of the Company denominated in foreign currency are translated to U.S. dollars at rates of exchange at the balance sheet date. Income statement items are translated at average exchange rates during the period. Translation adjustments arising from changes in exchange rates are included in the accumulated other comprehensive income or loss component of stockholders' equity. Realized exchange gains and losses are included in "Amortization and other, net" in the consolidated statements of operations. Net exchange (gains) losses totaled ($0.7) million in 2000, $1.0 million in 1999 and ($0.9) million in 1998.

### Research and Development Costs

Expenditures relating to the development of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred. The amounts charged to expense were $3.7 million in 2000, $3.0 million in 1999 and $1.5 million in 1998.

### Reclassifications

Certain reclassifications have been made to the previously reported consolidated statements of operations for the years ended December 31, 1999 and 1998 and consolidated balance sheet as of December 31, 1999, to provide comparability with the current year presentation.

### Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). Subsequent to the issuance of SFAS 133, the FASB has received many requests to clarify certain issues causing difficulties in implementation. In June 2000, the FASB issued SFAS 138, which responds to those requests by amending certain provisions of SFAS 133. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and hedging activities.

Effective January 1, 2001, the Company will adopt SFAS 133 and the corresponding amendments under SFAS 138. In that regard, the Company documented its risk management philosophy with regard to derivative instruments, inventoried all derivatives, documented how effectiveness of the derivatives will be assessed and prepared its systems to provide the necessary information for compliance. The Company does not anticipate that SFAS 133, as amended by SFAS 138, will have a material impact on the Company's consolidated results of operations, financial position or cash flows.

## 2. Inventories

Inventories are as follows at December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Finished products | **$ 25,886** | $16,489 |
| Work-in-process | **26,719** | 24,890 |
| Raw materials and supplies | **55,559** | 53,989 |
| Totals | **$108,164** | $95,368 |

The reserves for LIFO included in inventories at December 31, 2000 and 1999 are $9.9 million and $8.4 million, respectively. Replacement cost of inventories carried on LIFO exceeded the net LIFO carrying value by $9.6 million and $6.7 million at December 31, 2000 and 1999, respectively.

## 3. Assets Held for Resale

Assets held for sale at December 31, 2000, included the net assets of the unoccupied Greenville, Mississippi and Roxboro, North Carolina facilities recorded at $5.4 million.

## 4. Property, Plant and Equipment

Property, plant and equipment are as follows at December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Land and improvements | **$ 11,878** | $ 11,500 |
| Building and improvements | **50,722** | 52,247 |
| Machinery and equipment | **231,908** | 215,793 |
| Construction-in-progress | **30,185** | 10,607 |
| | **324,693** | 290,147 |
| Less accumulated depreciation | **(109,202)** | (99,373) |
| Totals | **$215,491** | $190,774 |

During the implementation of the Company's new information systems, the Company reviewed the estimated useful lives of its property, plant and equipment. This evaluation revealed that certain equipment was being depreciated over periods of time which were shorter than their respective useful lives. Accordingly, effective January 1, 1999, a change in estimate was made to the estimated useful lives of certain equipment, which resulted in an increase of approximately $1.4 million in net income for the year ended December 31, 1999.

## 5. Deferred Charges and Intangible Assets

Deferred charges and intangible assets are as follows at December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Deferred debt issuance costs | **$ 2,650** | $ 2,650 |
| Goodwill | **123,557** | 99,747 |
| Patents and other | **4,213** | 5,020 |
| | **130,420** | 107,417 |
| Less accumulated amortization | **(18,697)** | (15,645) |
| Totals | **$111,723** | $ 91,772 |

In September 2000, the Company acquired the joining products business of Engelhard Corporation. The joining products business is located in Warwick, Rhode Island, and is a leading manufacturer of brazing alloys and fluxes, as well as a supplier of lead-free solder. The transaction was structured as an all-cash acquisition for approximately $41.8 million, which the Company financed through its credit facility. The transaction was accounted for under the purchase method of accounting, and the Company recorded $23.9 million of goodwill, to be amortized on a straight-line basis over 40 years. The accounts and results of operations of the joining products business have been combined with those of the Company since the date of the acquisition.

In July 1999, the Company combined the assets of its Fergus, Ontario facility with certain of the assets of Ratcliffs Severn Ltd. to create the newly-formed joint entity of Wolverine Ratcliffs, Inc. ("WRI"). This transaction was accounted for using the purchase method. The purchase price was approximately $7.8 million, resulting in approximately $5.8 million of goodwill. The goodwill is being amortized over 40 years. The accounts and results of operations of WRI have been combined with those of the Company since the date of the acquisition.

## 6. Financing Arrangements and Debt

Long term debt consists of the following at December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Revolving Credit facility, interest tied to banks' base rate or alternative rates, 6.7% – 7.6% in 2000, due April 2002 | **$ 81,403** | $ 30,656 |
| Senior Notes, 7⅜%, due August 2008 | **150,000** | 150,000 |
| Discount on Senior Notes, original issue discount amortized over 10 years | **(240)** | (271) |
| Chinese Bank facility, 5.85%, due on demand | **966** | 3,019 |
| Canadian facility, prime plus 2%, due on demand | **8,758** | 9,569 |
| Canadian Government facility, non-interest bearing, due February 2001 | **333** | 693 |
| | **241,220** | 193,666 |
| Less short-term borrowings | **(10,057)** | (12,948) |
| Totals | **$231,163** | $180,718 |

Aggregate maturities of long-term debt are as follows:

| *(In thousands)* | |
|---|---|
| 2001 | $ 10,057 |
| 2002 | 81,403 |
| 2003 | – |
| 2004 | – |
| 2005 | – |
| Thereafter through 2008 | 149,760 |
| Totals | $241,220 |

In April 1997, the Company entered into its $200 million Revolving Credit Facility (the "Facility"), and in June 1998, the Company amended certain provisions of the Facility, which included: (i) increasing the amount of unsecured indebtedness that the Company may incur while borrowings under the Facility are outstanding; (ii) waiving the requirement that the proceeds of an offering of senior notes must be used to repay all the outstanding borrowings under the Facility; and (iii) raising the ratio of total debt to EBITDA permitted while borrowings are outstanding under the Facility. The Facility, as amended, matures on April 30, 2002, and currently provides for a floating base interest rate that is, at the Company's election, either (a) the higher of the federal funds effective rate plus 0.50% and the prime rate; or (b) LIBOR plus a specified margin (determined with reference to the Company's ratio of total debt to EBITDA and the Company's debt rating as determined by the Standard & Poor's and Moody's Rating Services) of 0.25% to 1.00%. Commitment fees on the unused available portion of the Facility range from 0.10% to 0.50%. As of December 31, 2000, the Company had approximately $85 million in outstanding borrowings and obligations under the Facility and approximately $115 million in additional borrowing availability thereunder.

The Facility contains financial and other covenants relating to intercompany indebtedness. As of December 31, 2000, the Company was in violation of the limits of intercompany indebtedness. The lender has waived this debt covenant violation through December 31, 2001.

During 1998 and 1999, the Company was party to an interest rate swap agreement which effectively fixed the interest rate on $65 million in principal amount of floating rate borrowings provided under the Facility at a rate of 6.82% plus the specified margin of 0.25% to 1.00%. This agreement was to expire on May 7, 2002, and was based on the three-month LIBOR. This interest rate swap was accounted for as a hedge; the differential to be paid as interest rates changes were accrued and recognized as an adjustment to interest expense. In September 1999, the Company entered into a cancellation agreement that terminated the interest rate swap. The resulting loss on termination, $0.8 million, was included in restructuring and other charges as stated in Note 16.

In August 1998, the Company issued $150 million in principal amount of 7⅜% Senior Notes (the "Senior Notes") due August 1, 2008. The Senior Notes were issued pursuant to an Indenture, dated as of August 4, 1998, between the Company and First Union National Bank, as Trustee. The net proceeds from the sale of the Senior Notes were applied to reduce borrowings under the Facility by approximately $58 million. The remaining net proceeds were used for capital expenditures, working capital and other general corporate purposes. The Senior Notes (i) have interest payment dates of February 1 and August 1 of each year, commencing February 1, 1999; (ii) are redeemable at the option of the Company at a redemption price equal to the greater of (a) 100% of the principal amount of the Senior Notes to be redeemed, or (b) the sum of the present value of the remaining scheduled payments of principal and

interest thereon from the redemption date to the maturity date, discounted to the redemption date on a semiannual basis at a rate based upon the yield of the specified treasury securities plus 25 basis points, plus, in each case, accrued interest thereon to the date of redemption; (iii) are senior unsecured obligations of the Company and are *pari passu* in right of payment with any existing and future senior unsecured indebtedness of the Company, including borrowings under the Facility; (iv) are guaranteed by certain of the Company's subsidiaries; and (v) are subject to the terms of the Indenture, which contain certain covenants that limit the Company's ability to incur indebtedness secured by certain liens and to engage in sale/leaseback transactions.

The Company has entered into a credit facility with a Chinese bank providing for available credit of up to $1.0 million. The facility is payable upon demand and bears interest at the bank's prime rate. At December 31, 2000, the Company had outstanding borrowings of $1.0 million under this facility.

In July 1999, WRI entered into a credit agreement with a Canadian bank providing for an aggregate available credit facility of up to Canadian $15 million (approximately U.S. $10 million) (the "Canadian Facility"). The Canadian Facility is payable upon demand and bears interest at the bank's prime rate. The Canadian Facility is secured by certain of WRI's assets. At December 31, 2000, WRI had outstanding borrowings of approximately Canadian $13.1 million (approximately U.S. $8.8 million).

The Company has a non-interest bearing loan agreement with the government of Canada. As of December 31, 2000 and 1999, the Company had outstanding advances of $0.3 million and $0.7 million respectively. The loan is being repaid in four annual installments which commenced in 1998 and will conclude in 2001.

The weighted average interest rate for short-term borrowings outstanding at December 31, 2000 was 8.9%.

The Company's credit agreements contain covenants that include requirements to maintain certain financial ratios and certain other restrictions and limitations, including the restrictions on payment of dividends by the Company, limitations on the issuance of additional debt, limitations on investments and contingent obligations, the redemption of capital stock and the sale or transfer of assets.

Interest expense is net of interest income and capitalized interest of $0.5 million and $1.4 million in 2000, $3.0 million and $0.4 million in 1999 and $2.8 million and $1.8 million in 1998, respectively.

## 7. Retirement and Pension Plans

### U.S. Plans

The Company has established trusteed, noncontributory defined benefit pension plans covering the majority of all U.S. employees fulfilling minimum age and service requirements. Benefits are based upon years of service with the Company and a prescribed formula based upon the employee's compensation. The Company contributes annual amounts that fall within the range determined to be deductible for federal income tax purposes.

Certain assumptions utilized in accounting for the U.S. defined benefit plans for the years ended December 31 are as follows:

| | **2000** | 1999 | 1998 |
|---|---|---|---|
| Discount rate | **7.75%** | 7.75% | 7.0% |
| Rate of increase in compensation | **4.0** | 4.0-4.25 | 4.0-4.25 |
| Expected return on plan assets | **9.5** | 9.5 | 9.0 |

The effect of the change in the assumed discount rate and the expected return on plan assets for the year ended December 31, 1999 resulted in an increase to the unrecognized net actuarial gain at December 31, 1999.

A summary of the components of net periodic pension cost for the U.S. defined benefit plans for the years ended December 31 is as follows:

| *(In thousands)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| Service cost | **$ 3,324** | $ 4,143 | $ 3,556 |
| Interest cost | **8,494** | 7,953 | 7,331 |
| Expected return on plan assets | **(12,817)** | (11,708) | (9,620) |
| Amortization of prior service cost | **134** | 134 | 133 |
| Amortization of net actuarial loss/gain | **(602)** | – | – |
| Effect of special termination benefits | **–** | 68 | – |
| Net periodic pension costs (benefits) | **$ (1,467)** | $ 590 | $ 1,400 |

The following table sets forth a reconciliation of the benefit obligation for the years ended December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Benefit obligation at the beginning of the year | **$111,562** | $113,888 |
| Service costs | **3,324** | 4,143 |
| Interest costs | **8,494** | 7,953 |
| Actuarial (gain) loss | **869** | (9,641) |
| Benefits paid | **(6,072)** | (4,849) |
| Special termination benefits | **–** | 68 |
| Benefit obligation at the end of the year | **$118,177** | $111,562 |

The following table sets forth a reconciliation of the plan assets for the years ended December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Fair value of plan assets at the beginning of the year | **$137,746** | $125,203 |
| Actual return on plan assets | **4,026** | 16,705 |
| Company contribution | **–** | 687 |
| Benefits paid | **(6,072)** | (4,849) |
| Fair value of plan assets at the end of the year | **$135,700** | $137,746 |

The following table sets forth the funded status of the plan and the amounts recognized in the Company's consolidated balance sheets at December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Funded status | **$ 17,523** | $ 26,184 |
| Unrecognized net actuarial gain | **(12,218)** | (22,480) |
| Unrecognized pension service costs | **1,361** | 1,495 |
| Prepaid pension obligation | **$ 6,666** | $ 5,199 |

The Company has 401(k) plans covering substantially all U.S. employees. The Company provides a 40%-75% match for up to the first 5% to 7.5% of the employee's salary contributed to the plans. The amount of expense recorded by the Company with respect to these plans was $2.0 million in 2000, $1.9 million in 1999 and $1.9 million in 1998.

The Wolverine Tube, Inc. Supplemental Benefit Restoration Plan (the "Restoration Plan") is a defined benefit pension plan, which is non-funded and provides benefits to certain eligible executives of the Company. The benefits provided under the Restoration Plan are identical to the benefits provided by the defined benefit pension plan. In addition, the Company provides a Supplemental Retirement Plan ("SERP") for the current CEO, which is non-funded. The benefits provided under this SERP are based upon years of service and compensation. Benefits become fully vested upon completion of six years of service from the date of employment or a change of control for the Company or dismissal without cause. The amount of expense incurred by the Company with respect to all supplemental plans was $0.3 million in 2000, $0.2 million in 1999 and $0.1 million in 1998. At December 31, 2000, the balance of accrued pension costs related to these plans was $1.1 million.

## Canadian Plans

The Company sponsors a defined contribution profit-sharing retirement plan for the London, Ontario facility employees who are required to contribute 4% of regular wages, subject to a maximum contribution limit specified by Canadian income tax regulations. Employer contributions are determined based on the facility's operating results, which will not be less than the greater of 1% of regular earnings of participants up to 10% of an adjusted net income as defined in the agreement. Employer contributions to this plan were $0.6 million in 2000, $0.7 million in 1999 and $0.6 million in 1998.

The Company has established noncontributory defined benefit pension plans covering substantially all employees at the Montreal, Quebec, and Fergus, Ontario, facilities. The Company contributes the actuarially determined amounts annually into the plans. Benefits for the hourly employees at the Montreal, Quebec, and Fergus, Ontario, facilities are based on years of service and a negotiated rate. Benefits for salaried employees are based on years of service and the employee's highest annual average compensation over five consecutive years.

Certain assumptions utilized in accounting for the Salaried Employees, Canadian Operational Employees and Quebec Operational Employees pension plans for the years ended December 31 are as follows:

| | **2000** | 1999 | 1998 |
|---|---|---|---|
| Discount rate | **7.5%** | 7.5% | 7.0% |
| Expected long-term rate of return on plan assets | **8.5** | 8.5 | 8.0 |

The expected rate of increase in compensation used in accounting for the Salaried Employees' pension plan was 3.0% for the years ended December 31, 2000, 1999 and 1998, and is not applicable in accounting for the Canadian Operational Employees and Quebec Operational Employees pension plans for the same periods. The effect of the change in the assumed discount rate and the expected return on plan assets for the year ended December 31, 1999, resulted in an increase to the unrecognized net actuarial gain at December 31, 1999.

A summary of the components of net periodic pension cost for the Salaried Employees, Canadian Operational Employees and Quebec Operational Employees pension plans for the years ended December 31 are as follows:

| *(In thousands)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| Service cost | **$ 522** | $ 525 | $ 488 |
| Interest cost | **1,317** | 1,212 | 1,114 |
| Expected return on plan assets | **(1,748)** | (1,638) | (1,544) |
| Amortization of prior service cost | **77** | 41 | 35 |
| Amortization of net actuarial gain | **(62)** | (32) | (45) |
| Net periodic pension cost | **$ 106** | $ 108 | $ 48 |

The following table sets forth a reconciliation of the benefit obligation for the years ended December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Benefit obligation at the beginning of the year | **$18,001** | $16,708 |
| Service costs | **522** | 525 |
| Interest costs | **1,317** | 1,212 |
| Amendments | **–** | 722 |
| Actuarial loss | **(1,175)** | (1,071) |
| Benefits paid | **(978)** | (1,113) |
| Foreign currency exchange rate changes | **(680)** | 1,018 |
| Benefit obligation at the end of the year | **$17,007** | $18,001 |

The following table sets forth a reconciliation of the plans assets for the years ended December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Fair value of plan assets at the beginning of the year | **$21,673** | $20,380 |
| Actual return on plan assets | **2,015** | 990 |
| Company contribution | **249** | 182 |
| Benefits paid | **(978)** | (1,113) |
| Foreign currency exchange rate changes | **(836)** | 1,234 |
| Fair value of plan assets at the end of the year | **$22,123** | $21,673 |

The following table sets forth the funded status of the plans and the amounts recognized in the Company's consolidated balance sheets at December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Funded status | **$ 5,116** | $ 3,672 |
| Unrecognized net actuarial gain | **(4,053)** | (2,793) |
| Unrecognized pension service costs | **1,177** | 1,302 |
| Prepaid pension obligation | **$ 2,240** | $ 2,181 |

## 8. Postretirement Benefit Obligation

The Company sponsors a defined benefit health care plan and life insurance plan that provides postretirement medical benefits and life insurance to substantially all full-time employees who have worked ten years after age 50 to 52, and widows of employees who die while employed after age 55 and have at least five years of service with the Company. This plan is contributory, with retiree contributions being adjusted annually.

Net periodic postretirement benefit cost for the years ended December 31 includes the following components:

| *(In thousands)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| Service cost | **$ 384** | $ 331 | $ 306 |
| Interest cost | **687** | 443 | 443 |
| Amortization of prior service cost | **85** | – | – |
| Amortization of deferred gain | **(284)** | (640) | (781) |
| Effect of special termination benefits | **55** | 717 | – |
| Net periodic postretirement benefit cost | **$ 927** | $ 851 | $ (32) |

The change in benefit obligation for the years ended December 31 includes the following components:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Benefit obligation at the beginning of the year | **$13,191** | $11,507 |
| Service cost | **384** | 331 |
| Interest cost | **687** | 443 |
| Participants' contributions | **49** | 48 |
| Amendments | **–** | 536 |
| Actuarial gain | **391** | 180 |
| Acquisition | **336** | – |
| Benefits paid | **(608)** | (571) |
| Special termination benefits | **56** | 717 |
| Benefit obligation at the end of the year | **$14,486** | $13,191 |

The Company has historically offered certain postretirement benefits for its employees. Due to oversight, the Canadian employees were omitted from the calculation of the postretirement benefit obligation. The Company has corrected the error by accounting for the obligation, net of deferred tax, as an adjustment to retained earnings as of December 31, 1999, 1998, 1997 and 1996. No adjustment to previously reported net income (loss) for the years ended December 31, 1999, 1998, 1997 and 1996 was required.

The following table sets forth the funded status of the plan and the amounts recognized in the Company's consolidated balance sheets at December 31:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Funded status | **$14,486** | $13,191 |
| Unrecognized net actuarial gain | **3,559** | 4,298 |
| Unrecognized prior service cost | **(773)** | (536) |
| Net accrued postretirement benefit obligation | **$17,272** | $16,953 |

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.75% at December 31, 2000 and 1999.

For purposes of determining the cost and obligation for postretirement medical benefits, a 5% annual rate of increase in the per capita cost of covered benefits (i.e. health care trend rate) was assumed for 1999 and is assumed to remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in the assumed health care cost trend rate would have had the following effects:

| *(In thousands)* | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 11 | $ (10) |
| Effect on postretirement benefit obligation | $153 | $(145) |

## 9. Environmental Remediation

The Company is subject to extensive U.S. and Canadian federal, state, provincial and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment. The Company has received various communications from regulatory authorities concerning certain environmental matters and has currently been named as a potentially responsible party ("PRP") at one waste disposal site. The Company believes that its potential liability with respect to this waste disposal site is not material.

The Company had accrued estimated environmental remediation costs of $2.2 million at December 31, 2000, consisting primarily of $0.8 million for the Decatur facility, $0.1 million for the Greenville facility, $0.8 million for the Ardmore facility and $0.4 million for the Shawnee facility (with respect to the Double Eagle Refinery site). Based on information currently available, the Company believes that the costs of these matters are not reasonably likely to have a material effect on the Company's business, financial condition or results of operations.

## 10. Income Taxes

The components of income before income taxes and cumulative effect of accounting change for the years ended December 31 are as follows:

| *(In thousands)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| U.S. | **$12,398** | $(15,046) | $24,151 |
| Foreign | **24,355** | 16,526 | 13,838 |
| Total | **$36,753** | $ 1,480 | $37,989 |

The provision for income taxes on income before the cumulative effect of accounting change for the years ended December 31 consists of the following:

| *(In thousands)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| Current (benefit) expense: | | | |
| U.S. Federal | **$ 1,696** | $ 191 | $10,402 |
| Foreign | **7,860** | 5,961 | 4,062 |
| State | **95** | (493) | 263 |
| Total current | **9,651** | 5,659 | 14,727 |
| Deferred (benefit) expense: | | | |
| U.S. | **3,857** | (5,246) | (1,728) |
| Foreign | **(230)** | (702) | 353 |
| Total deferred | **3,627** | (5,948) | (1,375) |
| Total income tax expense (benefit) | **$13,278** | $ (289) | $13,352 |

Deferred income taxes included in the Company's balance sheets reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the carrying amount for income tax return purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

| *(In thousands)* | **2000** | 1999 |
|---|---|---|
| Deferred tax liabilities: | | |
| Basis of property, plant and equipment | **$27,368** | $24,048 |
| Inventory valuation | **2,657** | 1,386 |
| Prepaid pension | **2,930** | 2,663 |
| Other | **257** | 235 |
| Total deferred tax liabilities | **33,212** | 28,332 |
| Deferred tax assets: | | |
| Environmental remediation | **826** | 980 |
| Pension obligation | **421** | 324 |
| Postretirement benefits obligation | **6,363** | 6,182 |
| Other | **2,919** | 1,790 |
| Total deferred tax assets | **10,529** | 9,276 |
| Net deferred tax liability | **$22,683** | $19,056 |

Reconciliation of differences between the statutory U.S. federal income tax rate and the Company's effective tax rate follows:

| *(In thousands)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| Income tax expense at federal statutory rate | **$12,864** | $ 518 | $13,296 |
| Increase (decrease) in taxes resulting from: | | | |
| State and local taxes, net of federal benefit | **369** | (731) | 263 |
| Effect of difference in U.S. and foreign rates | **(894)** | (525) | (428) |
| Permanent differences | **523** | 643 | 338 |
| Other | **416** | (194) | (117) |
| Income tax expense (benefit) | **$13,278** | $(289) | $13,352 |

## 11. Cumulative Preferred Stock

The Company has 500,000 shares authorized for issuance of $1 par value cumulative preferred stock. Of these shares, there are currently 20,000 shares of cumulative preferred stock issued and outstanding which must be redeemed by the Company on March 1, 2002, if not earlier, for $100 per share plus accrued and unpaid dividends. The cumulative preferred stock provides for annual dividends at the rate of $14 per share. The dividends accrue quarterly whether declared or not, and compound quarterly at 14% per annum to the extent unpaid. At December 31, 2000 and 1999, all dividends had been paid.

The cumulative preferred stock is entitled to a preference, in liquidation, in the amount of $100 per share, plus any accrued and unpaid dividends and any related interest. The owners of the cumulative preferred stock are not entitled to any voting rights, except that in the event that six consecutive quarterly dividends are not paid, the holders of the cumulative preferred stock are entitled to vote separately as a class to elect 20% of the Directors of the Company. There are also certain restrictions against the declaration or payment of dividends on common stock or the acquisition of common stock by the Company if it is in default on any dividends or redemption payments on the cumulative preferred stock. Additionally, amendment of the Company's Articles of Incorporation or changes in the number of authorized stock ranking on a parity with the preferred stock must be approved by the holders of the cumulative preferred stock.

## 12. Common Stock

All holders of Common Stock are entitled to receive dividends when and if declared by the Company's Board of Directors (the "Board"), provided that all dividend requirements of the cumulative preferred stock have been paid. Additionally, the payment of dividends on the Company's Common Stock is restricted under the terms of the Company's various financing agreements. To date, no dividends have been paid to the holders of the Common Stock and there are no immediate plans to institute a dividend.

The Board has adopted a Stockholder Rights Plan designed to protect the Company and its stockholders from coercive, unfair or inadequate takeover bids. Pursuant to the Rights Plan, a dividend of one Preferred Share Purchase Right (a "Right") was declared for each share of Common Stock outstanding at the close of business on February 23, 1996. The Rights are generally not exercisable until ten days after a person or group acquires, or commences a tender offer that could result in the party acquiring, 15% of the outstanding shares of Common Stock. Each Right, should it become exercisable, will enable the owner to buy one one-thousandth of a share of newly created Series A Junior Participating Preferred Stock at an exercise price of $175, and, in certain circumstances, to purchase shares of Common Stock at a substantially reduced price. The Board is generally entitled to redeem the Rights at $0.01 per Right at any time prior to the date they become exercisable. The Rights will expire on February 23, 2006.

In September 1998, the Company announced that the Board of Directors had authorized the Company to purchase up to 1,000,000 shares of the Company's outstanding common stock in the open market from time to time as market conditions warranted. In July 1999, the Company announced that the Board of Directors had authorized an increase in the amount of this common stock repurchase program up to 2,000,000 shares. On April 6, 2000, the Company announced completion of this common stock repurchase program at an aggregate purchase price of $36.7 million and the repurchase of 2,000,000 shares.

On April 6, 2000, the Company also announced that the Board of Directors had authorized the Company to purchase an additional 1,000,000 shares of the Company's outstanding common stock. As of December 31, 2000, the Company had repurchased 179,900 shares of common stock under this program. This common stock repurchase program, which was extended on February 23, 2001, expires March 31, 2002.

## 13. Stock-Based Compensation Plans

The Company has elected to follow Accounting Principles Board Opinion No. 25 ("APB 25"), *Accounting for Stock Options Issued to Employees*, and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under Financial Accounting Standards Board Statement No. 123 ("Statement 123"), *Accounting for Stock-Based Compensation*, requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The weighted average fair value of options granted during 2000 estimated on the date of grant using the Black-Scholes pricing model was $6.77. The fair value for these options was estimated at the date of grant using the following weighted average assumptions for 2000, 1999 and 1998, respectively: risk free interest rates of 6.12%, 5.78% and 5.29%; volatility factors of the expected market price of the Company's common stock of 0.339, 0.337 and 0.331; and a weighted average expected life of the option of seven 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. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The effects of applying Statement 123 for pro forma disclosure may not be representative of the effects on reported pro forma net income in future years. The Company's pro forma information for the years ended December 31 follows:

| *(In thousands, except per share amounts)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| Net income (loss) applicable to common shares: | | | |
| As reported | **$23,195** | $(4,265) | $24,357 |
| Pro forma | **21,258** | (6,386) | 21,743 |
| Diluted earnings (loss) per share: | | | |
| As reported | **$ 1.88** | $ (0.32) | $ 1.72 |
| Pro forma | **1.71** | (0.48) | 1.54 |

The 1993 Equity Incentive Plan (the "1993 Equity Plan") provides for the issuance of stock options, restricted shares, stock appreciation rights, phantom shares and other additional awards to key executives and employees. The maximum number of additional shares issuable under the 1993 Equity Plan is 2,075,000 at a price as determined by the Company's Compensation Committee. All options granted to date have been issued at the market value at the date of the grant. Options granted prior to 1999 under the 1993 Equity Plan vest 20% on each anniversary thereafter and terminate on the tenth anniversary of the date of grant. Options granted in 1999 and subsequent years under the 1993 Equity Plan vest 33⅓% on each anniversary thereafter and terminate on the tenth anniversary of the date of grant. Options granted under prior plans remain outstanding but are governed by the provisions of the 1993 Equity Plan.

The 1993 Stock Option Plan for Outside Directors (the "1993 Directors' Plan") provides for the issuance of stock options to outside directors at the fair market value on the date of grant. A maximum of 185,000 shares are issuable under the 1993 Directors' Plan. The initial options granted at the time the Director joins the Board vest at 33⅓% per year but must be held one year before being exercised. All subsequent options granted vest immediately. All options terminate on the tenth anniversary of the date of grant.

The Company's stock option plans are summarized as follows:

| | Number of Shares | | | Weighted |
|---|---|---|---|---|
| | 1993 Directors' Plan | 1993 Equity Incentive Plan | Option Price | Average Exercise Price |
| Outstanding at December 31, 1997 | 40,000 | 611,123 | $ 4.44 – $41.13 | $24.64 |
| Granted | 14,000 | 343,450 | $20.00 – $40.25 | $36.78 |
| Exercised | (8,000) | (69,996) | $ 4.44 – $37.25 | $15.46 |
| Forfeited | – | (39,490) | $20.88 – $37.88 | $35.28 |
| Outstanding at December 31, 1998 | 46,000 | 845,087 | $ 4.44 – $40.25 | $29.84 |
| Granted | 7,000 | 394,950 | $14.01 – $25.25 | $22.01 |
| Exercised | – | (49,229) | $ 4.44 – $20.88 | $ 5.81 |
| Forfeited | – | (114,450) | $20.00 – $39.38 | $30.46 |
| Outstanding at December 31, 1999 | 53,000 | 1,076,358 | $ 4.44 – $40.25 | $28.04 |
| **Granted** | **50,200** | **343,950** | **$11.95 – $17.01** | **$13.90** |
| **Exercised** | **–** | **(4,680)** | **$ 4.44 – $ 7.39** | **$ 6.24** |
| **Forfeited** | **–** | **(108,386)** | **$12.31 – $38.44** | **$26.79** |
| **Outstanding at December 31, 2000** | **103,200** | **1,307,242** | **$ 4.44 – $40.25** | **$24.25** |
| Exercisable at: | | | | |
| December 31, 1998 | 27,667 | 314,287 | $4.44 – $40.25 | $21.07 |
| December 31, 1999 | 43,000 | 388,273 | $4.44 – $40.25 | $26.42 |
| **December 31, 2000** | **99,866** | **574,600** | **$4.44 – $40.25** | **$26.12** |

The number of options outstanding, weighted average exercise price, weighted average remaining contractual life, vested options and the weighted average exercise price of vested options outstanding at December 31, 2000, which were issued prior to August 1993, were 83,218, $6.28, 1.7 years, 83,218 and $6.28, respectively. The number of options outstanding, weighted average exercise price, weighted average remaining contractual life, vested options and the weighted average exercise price of vested options outstanding at December 31, 2000, which were issued after August 1993, were 1,327,224, $25.38, 7.4 years, 591,248 and $28.92, respectively. The weighted average remaining life for all options outstanding at December 31, 2000, is 7.1 years.

The range of exercise prices of the outstanding options and exercisable options at December 31, 2000 are as follows:

| Weighted Average Exercise Price | Number of Exercisable Shares | Number of Outstanding Shares | Weighted Average Remaining Life |
|---|---|---|---|
| $ 4.44 – $14.99 | 136,085 | 435,718 | 7.7 |
| $15.00 – $24.99 | 180,948 | 424,684 | 7.6 |
| $25.00 – $40.25 | 357,433 | 550,040 | 6.2 |
| Totals | 674,466 | 1,410,442 | 7.1 |

In 2000, the Company awarded 58,609 shares of restricted stock under the 1993 Equity Plan, with a fair value at the date of grant of $15.20 per share. These restricted shares vest 50% annually at the anniversary date of the grant. Compensation expense recorded by the Company with respect to restricted stock awards was approximately 0.6 million in 2000 and is recognized on a straight-line basis over the two year vesting period of the restricted stock grants. In addition, selected senior executives as designated by the CEO and approved by the Compensation Committee are eligible for restricted stock awards under the Long-Term Incentive Plan ("LTIP") based on the Company's return on total capital measured over a three year period. Performance objectives under the LTIP are based upon an incremental scale depending on achieving the specified target return rate. No compensation expense was recorded in 2000 with respect to these awards.

## 14. Commitments

Minimum future rental commitments under operating leases having non-cancelable lease terms in excess of one year totaled approximately $8.0 million as of December 31, 2000 and are payable as follows: $2.3 million in 2001, $1.8 million in 2002, $1.3 million in 2003, $1.0 million in 2004, $1.0 million in 2005 and $0.5 million thereafter. Rental expense for operating leases was $3.3 million in 2000, $2.9 million in 1999 and $2.0 million in 1998.

At December 31, 2000, the Company had commitments of $15.7 million for capital expenditures.

## 15. Industry Segments and Foreign Operations

The Company's reportable segments are based on the Company's three product lines: commercial products, wholesale products and rod, bar and strip products. Commercial products consist primarily of high value-added products sold directly to original equipment manufacturers. Wholesale products are commodity-type plumbing tube products, which are typically sold to a variety of customers. Rod, bar and strip products which are also sold to a variety of customers.

The accounting policies for each of the reportable segments are the same as those described in Note 1 of the Notes to the Consolidated Financial Statements. The Company evaluates the performance of its operating segments based on sales and gross profit; however, it does not allocate asset amounts and items of income and expense below gross profit or depreciation and amortization.

Summarized financial information concerning the Company's reportable segments is shown in the following table:

| *(In thousands)* | Commercial | Wholesale | Rod, Bar & Strip | Consolidated |
|---|---|---|---|---|
| **Year ended December 31, 2000:** | | | | |
| **Sales** | **$486,871** | **$ 96,993** | **$116,312** | **$700,176** |
| **Gross profit** | **67,003** | **10,517** | **6,708** | **84,228** |
| Year ended December 31, 1999: | | | | |
| Sales | $436,738 | $118,809 | $ 90,227 | $645,774 |
| Gross profit | 50,443 | 12,247 | 4,054 | 66,744 |
| Year ended December 31, 1998: | | | | |
| Sales | $445,488 | $104,072 | $ 67,952 | $617,512 |
| Gross profit | 73,410 | 6,357 | 2,946 | 82,713 |

The Company's manufacturing operations are primarily conducted in the U.S. and Canada. In 2000 and 1999, no customer accounted for as much as 10% of the Company's net sales. In 1998, one customer accounted for approximately 10% of the Company's net sales. In 2000, the Company sold $513.6 million of products in the United States, $117.7 million in Canada and $68.9 million outside the United States and Canada. In 1999, the Company sold $481.9 million of products in the United States, $110.0 million in Canada and $53.9 million outside the United States and Canada. Comparable information for 1998 was not readily available.

The following summarized geographic data is based on estimates that do not consider fully the extent to which the Company's product development, engineering, marketing and management activities are interrelated. Thus, the data is not totally indicative of the extent that each geographic area contributed to the Company's consolidated operating results. Sales, gross profit and asset information below is based upon the physical location of the Company's facilities.

| *(In thousands)* | U.S. | Canada | Other Foreign Operations | Consolidated |
|---|---|---|---|---|
| **Year ended December 31, 2000:** | | | | |
| **Sales** | **$439,335** | **$250,346** | **$10,495** | **$700,176** |
| **Gross profit** | **61,246** | **20,882** | **2,100** | **84,228** |
| **Long-lived assets** | **294,267** | **43,649** | **2,432** | **340,348** |
| Year ended December 31, 1999: | | | | |
| Sales | $437,056 | $202,464 | $ 6,254 | $645,774 |
| Gross profit | 45,674 | 20,330 | 740 | 66,744 |
| Long-lived assets | 247,678 | 39,355 | 2,028 | 289,061 |
| Year ended December 31, 1998: | | | | |
| Sales | $441,833 | $175,679 | | $617,512 |
| Gross profit | 65,494 | 17,219 | | 82,713 |
| Long-lived assets | 262,773 | 32,287 | | 295,060 |

## 16. Restructuring and Other Charges

During the third quarter of 1999, the Company recognized restructuring and other charges of $19.9 million ($12.5 million net of tax). The restructuring and other charges include the following components:

| | |
|---|---|
| Impairment of assets due to closing the Roxboro, North Carolina facility | $ 8.6 |
| Other expenses related to closing the Roxboro, North Carolina facility | 1.4 |
| Impairment of assets due to relocating equipment from Roxboro, North Carolina and changes in production | 3.6 |
| Impairment of assets related to a previously-closed facility | 1.8 |
| Other expenses related to a previously-closed facility | 0.1 |
| Non-manufacturing workforce reduction program – approximately 100 employees | 2.8 |
| Expenses related to the termination of an interest rate swap | 0.8 |
| Expenses related to professional fees and other costs primarily associated with acquisitions that were not completed | 0.8 |
| | $19.9 |

The primary contributing factors leading to the Company's decision to close its Roxboro, North Carolina facility were the less-than-anticipated growth in technical tube related to the CFC phase out, the facility's inability to meet its return on capital objectives and the Company's plans to potentially expand production in Asian, European and Latin American markets. The $8.6 million impairment of assets at Roxboro included the net book value of $4.7 million of machinery and equipment, $1.3 million of cost for parts related to the machinery and equipment and $2.6 million related to the decline in market value of the land and buildings and the estimated closing costs required to sell the land and buildings. The Company has relocated all of the other Roxboro machinery and equipment and inventory to its other facilities. As a result of relocating the Roxboro machinery and equipment to its other facilities and thereby displacing existing equipment and necessitating changes in production, the Company recorded a $3.6 million impairment of assets, $2.3 million of which was the net book value of machinery and equipment no longer employed and $1.3 million of cost for parts related to this machinery and equipment.

Additionally, the Company recorded a $1.8 million impairment of assets primarily related to the closing of the Greenville, Mississippi facility in 1998, $0.8 million of which was the net book value of land and buildings and $1.0 million of which was the net book value of machinery and equipment.

The Company's Roxboro, North Carolina and Greenville, Mississippi facilities are not being utilized for production and are currently being held for sale.

To date, the Company has paid approximately $4.8 million in cash relating to the restructuring. The Company believes the accrued restructuring costs of $0.2 million at December 31, 2000, represent its remaining cash obligations.

Additionally, the Company recorded in the third quarter of 1999 $14.4 million of non-recurring charges in cost of goods sold in the consolidated statement of operations. These charges included $8.1 million related to the liquidation of LIFO inventory values, $4.6 million related to obsolete inventory, $0.8 million net book value of idled and obsolete machinery and equipment and $0.9 million of other charges related to the realignment of the Company's manufacturing operations.

During the third quarter of 1998, the Company recognized restructuring and other charges of $11.9 million ($7.5 million net of tax). The restructuring and other charges included the following components:

| | |
|---|---|
| Impairment of assets due to closing the Greenville, Mississippi facility | $ 5.6 |
| Severance costs primarily related to closing the Greenville, Mississippi facility, approximately 140 employees | 1.6 |
| Other costs primarily related to closing the Greenville, Mississippi facility | 0.2 |
| Impairment of assets at the Roxboro, North Carolina facility | 2.3 |
| Other costs related to changes in production at the Roxboro, North Carolina facility | 0.4 |
| Salaried workforce reduction program for approximately 50 employees | 0.9 |
| Expenses related to professional fees and other costs primarily associated with acquisitions that were not completed | 0.9 |
| | $11.9 |

The primary contributing factors leading to the Company's decision to close its Greenville, Mississippi facility were the facility's inability to meet its operating result objectives and the Company's desire to more efficiently and better meet customer needs via its other three fabrication facilities. The $5.6 million impairment of assets included $2.4 million of start-up costs, $1.1 million related to the decline in market value of the land and buildings and the net book value of $2.1 million of machinery and equipment.

The Company discontinued casting at its Roxboro, North Carolina facility in 1998 and recorded a charge of $2.3 million for the impairment of the net book value of its melt furnace and related assets. The Company recorded a charge of $0.4 million for other costs associated with the discontinuation of the casting process.

Additionally, the Company recorded in the third quarter of 1998 $2.1 million of non-recurring charges in cost of goods sold in the consolidated statements of operations. These charges included $0.5 million of obsolete inventory and $0.9 million of other costs associated with the closing of its Greenville, Mississippi facility. The Company recorded $0.7 million of costs associated with the discontinuation of casting at its Roxboro, North Carolina facility.

## 17. Earnings per Share

The following table sets forth the computation of earnings per share for the years ended December 31:

| *(In thousands, except per share amounts)* | **2000** | 1999 | 1998 |
|---|---|---|---|
| Income before cumulative effect of accounting change | **$23,475** | $ 1,769 | $24,637 |
| Cumulative effect of accounting change | **–** | (5,754) | – |
| Net income (loss) | **23,475** | (3,985) | 24,637 |
| Dividends on preferred stock | **(280)** | (280) | (280) |
| Net income (loss) available to common shares | **$23,195** | $(4,265) | $24,357 |
| Basic weighted average common shares | **12,153** | 13,106 | 14,025 |
| Employee stock options | **191** | 137 | 161 |
| Diluted weighted average common and common equivalent shares | **12,344** | 13,243 | 14,186 |
| Earnings per common share—basic: | | | |
| Income before cumulative effect of accounting change | **$ 1.91** | $ 0.11 | $ 1.74 |
| Cumulative effect of accounting change | **–** | (0.44) | – |
| Net income (loss) per common share | **$ 1.91** | $ (0.33) | $ 1.74 |
| Earnings per common share—diluted: | | | |
| Income before cumulative effect of accounting change | **$ 1.88** | $0.11 | $ 1.72 |
| Cumulative effect of accounting change | **–** | (0.43) | – |
| Net income (loss) per common share | **$ 1.88** | $ (0.32 ) | $ 1.72 |

## 18. Quarterly Results of Operations (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2000 and 1999:

| 2000 | April 3 | July 3 | October 2 | December 31 |
|---|---|---|---|---|
| *(In thousands, except per share amounts)* | | | | |
| **Net sales** | **$177,805** | **$179,547** | **$171,078** | **$171,746** |
| **Gross profit** | **23,205** | **24,759** | **19,104** | **17,160** |
| **Net income** | **6,847** | **8,009** | **4,994** | **3,625** |
| **Basic earnings per common share** | **$ 0.55** | **$ 0.66** | **$ 0.41** | **$ 0.30** |
| **Diluted earnings per common share** | **$ 0.54** | **$ 0.64** | **$ 0.40** | **$ 0.29** |

| 1999 | April 3 | July 3 | October 2 | December 31 |
|---|---|---|---|---|
| *(In thousands, except per share amounts)* | | | | |
| Net sales | $160,845 | $164,317 | $164,766 | $155,846 |
| Gross profit | 22,112 | 24,119 | 3,488 | 17,025 |
| Restructuring and other charges | – | - | 19,938 | – |
| Income (loss) before cumulative effect of accounting change | 7,220 | 8,591 | (17,104) | 3,062 |
| Cumulative effect of accounting change, net of income tax benefit | (5,754) | – | – | – |
| Net income (loss) | 1,466 | 8,591 | (17,104) | 3,062 |
| Basic earnings per common share: | | | | |
| Income (loss) before cumulative effect of accounting change | $ 0.53 | $ 0.64 | $ (1.32) | $ 0.24 |
| Cumulative effect of accounting change, net of income tax benefit | (0.43) | – | – | – |
| Net income (loss) per share | $ 0.10 | $ 0.64 | $ (1.32) | $ 0.24 |
| Diluted earnings per common share: | | | | |
| Income (loss) before cumulative effect of accounting change | $ 0.53 | $ 0.63 | $ (1.32) | $ 0.23 |
| Cumulative effect of accounting change, net of income tax benefit | (0.43) | – | – | – |
| Net income (loss) per share | $ 0.10 | $ 0.63 | $ (1.32) | $ 0.23 |

## 19. Subsequent Events (Unaudited)

In March 2001, the Company announced its plan to build a 33,000 square foot technical tube facility in Esposende, Portugal. The Company expects to invest approximately $9 million in the facility, which will initially have the capacity to produce five to six million pounds per year and will employ approximately 60 people. The Company expects to begin production in the fourth quarter of 2001 for customer qualification and commence commercial production for sale to its customers in the first quarter of 2002.

# Report of Ernst & Young LLP, Independent Auditors

Wolverine Tube, Inc. and Subsidiaries

The Board of Directors
Wolverine Tube, Inc.

We have audited the accompanying consolidated balance sheets of Wolverine Tube, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wolverine Tube, Inc. and Subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, in 1999 the Company changed its method of accounting for start-up activities.

February 2, 2001
Birmingham, Alabama

# Corporate Information

Wolverine Tube, Inc. and Subsidiaries

**Corporate Address**
200 Clinton Avenue West, 10th Floor
Huntsville, Alabama 35801
(256) 890-0460

**Transfer Agent and Registrar**
First Union National Bank
Charlotte, North Carolina

**Independent Auditors**
Ernst & Young LLP
Birmingham, Alabama

**Year End**
The Company's year end is December 31.

**Annual Meeting of Stockholders**
The 2001 Annual Meeting will be held at 8:30 a.m. EDT on Wednesday, May 23, 2001 at The Benjamin Hotel, 125 East 50th Street, New York, New York 10022. A proxy statement and Notice of Annual Meeting was mailed to shareholders of record as of March 31, 2001.

On March 31, 2001, there were 304 stockholders of record. The closing price of the Company's Common Stock was $11.99 on December 31, 2000.

**Investor Relations Program**
Wolverine Tube, Inc. has an active investor relations program directed to both individual and institutional investors. The Company's investor relations mission is to maintain an ongoing awareness of the Company's performance among its stockholders and the financial community. The Company welcomes inquiries from its investors, large or small, as well as from members of the financial community. For further information contact:

Thomas D. Johnson, Jr.
*Director, Investor Relations and Communications*
Wolverine Tube, Inc.
200 Clinton Avenue West, 10th Floor
Huntsville, Alabama 35801
(256) 890-0460 Telephone
(256) 890-0470 Facsimile

**Dividends**
The Company did not declare of pay cash dividends on the Common Stock during the years ended December 31, 2000 or 1999. The Company does not currently plan to pay cash dividends on its Common Stock. Any future determination to pay cash dividends will depend on the Company's results of operations, financial condition, contractual restrictions, and other factors deemed relevant by the Board of Directors. The Company intends to retain earnings to support the growth of the Company's business.

Under the terms of the Company's Cumulative Preferred Stock, the Company must pay all accrued dividends on outstanding Cumulative Preferred Stock prior to making any cash dividend payments on the Common Stock. Additionally, the Company's credit agreement with a group of banks permits the Company to pay dividends on the Common Stock only if certain financial and other tests are met.

**Annual Report on Form 10-K**
A copy of Wolverine Tube, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2000, filed with the Securities and Exchange Commission, may be obtained without charge by writing to the Investor Relations Department at the corporate address.

**Internet Site**
Our site, http://www.wlv.com, offers information about our Company, including press releases, analyst coverage, earnings reports, SEC filings and a calendar of events.

**Common Stock**
Wolverine Tube, Inc.'s Common Stock is traded on the New York Stock Exchange under the symbol WLV. The following table includes quarterly information on the price range of the Company's Common Stock.

| 2000 | High | Low |
|---|---|---|
| **First Quarter** | **$14.50** | **$11.38** |
| **Second Quarter** | **$17.94** | **$12.49** |
| **Third Quarter** | **$18.75** | **$14.50** |
| **Fourth Quarter** | **$15.31** | **$11.30** |

| 1999 | High | Low |
|---|---|---|
| First Quarter | $22 15/16 | $18 5/8 |
| Second Quarter | $26 3/4 | $20 1/16 |
| Third Quarter | $25 3/8 | $14 3/16 |
| Fourth Quarter | $15 15/16 | $13 3/8 |

# Corporate Officers and Board of Directors

Wolverine Tube, Inc. and Subsidiaries

## Management

**Dennis Horowitz**
*Chairman, President and Chief Executive Officer and a Director since 1998*

**James E. Deason**
*Executive Vice President, Chief Financial Officer, Treasurer and Secretary and a Director since 1995*

**Johann R. Manning, Jr.**
*Senior Vice President, Human Resources and General Counsel*

**Massoud Neshan**
*Senior Vice President, Technology*

**Thomas J. Ruble**
*Senior Vice President, Quality and Strategic Initiatives*

**Keith I. Weil**
*Senior Vice President, Tubing Products*

**Robert C. Wordham**
*Senior Vice President, Fabricated Products*

**Garry K. Johnson**
*Vice President, Sales*

**Thomas A. Morton**
*Vice President, Material Handling and Procurement*

## Outside Directors

**Chris A. Davis**
*Executive Vice President,*
*Chief Financial and Administrative Officer,*
*ONI Systems Corporation – a developer and marketer of all-optical networking communications equipment*
*Director since 1997*

**John L. Duncan**
*President and Chief Executive Officer,*
*Martin Industries, Inc. – a manufacturer of pre-engineered fireplaces, gas heaters, gas logs and related equipment*
*Retired President and Chief Executive Officer*
*Murray Ohio Manufacturing Co. – a manufacturer of lawnmowers and bicycles*
*Director since 1993*

**Thomas P. Evans**
*Executive Vice President of Business Development,*
*Permal Asset Management – an asset manager*
*Director since 1995*

**W. Barnes Hauptfuhrer**
*Co-Head of Capital Markets,*
*First Union Corporation – a financial services corporation*
*Director since 1998*

**Gail O. Neuman**
*Retired Vice President, Human Resources and General Counsel*
*Nissan Motor Manufacturing Corporation U.S.A. – a vehicle manufacturer*
*Director since 1997*

**Charles E. Thompson**
*Retired Senior Vice President and Director of World Marketing,*
*Semiconductor Products sector, Motorola, Inc. – a communications and semiconductor solutions provider*
*Director since 1998*

**Jan K. Ver Hagen**
*Senior Vice President reporting to the Chairman*
*Emerson Electric Co. – a manufacturer and marketer of electronic and electrical products*
*Director since 1996*

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# Our Inside Story

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