

**The Alpine Group, Inc.**  
**Financial Statements**  
**For the fiscal years ended December 31, 2006 and 2005**

## REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
The Alpine Group, Inc.  
East Rutherford, New Jersey,

We have audited the accompanying consolidated balance sheet of The Alpine Group, Inc. (the Company) as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. 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 audit. We did not audit the financial statements of Superior Cables Ltd., a 52% owned subsidiary, accounted for using the equity method, which approximated 14% of consolidated total assets and 8% of consolidated net income. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Superior Cables Ltd, is based solely on the report of other auditors. The financial statements of the Company as of December 31, 2005 and for the year then ended prior to the adjustment described in Note 4, to present discontinued operations, were audited by other auditors whose report dated March 28, 2005, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

The Company has accounted for a majority owned subsidiary as an equity affiliate that, in our opinion, should be consolidated to conform with accounting principles generally accepted in the United States of America. If this subsidiary were consolidated total assets would be increased by \$176.9 million and total liabilities by \$175.2 million.

In our opinion, based on our audit and the report of other auditors except for the effects of not consolidating its majority owned subsidiary as discussed in the preceding paragraph, the 2006 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and the results of its operations and its cash flows for the year then ended, in conformity accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 4 that were applied to adjust the financial statements as of December 31, 2005 and for the year then ended. In our opinion, such adjustments are appropriate and have been properly applied.

/s/ Crowe Chizek and Company LLC

Fort Wayne, Indiana  
May 29, 2007

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	<b>December 31,</b>	<b>December 31,</b>
<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents .....	\$ 1,586	\$ 642
Marketable securities (Note 1).....	4,187	18,511
Restricted cash and marketable securities (Note 1) .....	2,810	—
Other Investments (Note 1).....	9,474	4,465
Accounts receivable, trade .....	174	1,802
Accounts receivable from affiliate (Note 1) .....	4,192	—
Inventories, net (Note 2).....	35,925	145
Notes receivable from affiliate (Note 1) .....	3,275	1,399
Current assets of discontinued operations (Note 4) .....	2,037	98,444
Prepaid expenses, deposits and other current assets .....	4,261	2,056
Total current assets .....	67,921	127,464
Property, plant and equipment, net (Note 3) .....	352	428
Investment in affiliate (Note 5) .....	11,796	—
Deferred income taxes.....	2,828	2,941
Assets of discontinued operations (Note 4) .....	—	18,090
Other assets .....	2,049	2,212
Total assets .....	\$84,946	\$151,135
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving credit facility (Note 6) .....	\$ 1,128	\$ —
Current portion of long-term debt (Note 7) .....	130	—
Accounts payable .....	13,057	807
Accrued expenses .....	3,326	3,951
Deferred income taxes (Note 8).....	12,691	13,663
Current liabilities of discontinued operations (Note 4).....	2,183	67,743
Total current liabilities .....	32,515	86,164
Long-term debt, less current portion (Note 7) .....	339	2,456
Other long-term liabilities (Note 9).....	19,176	18,530
Liabilities of discontinued operations .....	—	2,628
Warrant .....	—	1,311
Minority interest in subsidiary .....	—	5,528
Mandatorily redeemable series A convertible preferred stock (12,303 and 13,955 shares outstanding at December 31, 2006 and 2005, respectively) (Note 4).....	4,635	5,263
Commitments and contingencies (Notes 8 and 17)		
Stockholder's equity:		
9% cumulative convertible preferred stock at liquidation value.....	177	177
Common stock, \$.10 par value; (50,000,000 shares authorized; 26,665,817 and 25,239,696 shares issued at December 31, 2006 and 2005, respectively) .....	2,667	2,524
Capital in excess of par value .....	170,244	169,156
Accumulated other comprehensive income (loss) .....	289	219
Accumulated deficit .....	(28,691)	(48,827)
Treasury stock, at cost (17,414,721 and 10,873,427 shares at December 31, 2006 and 2005, respectively) .....	(116,128)	(93,648)
Receivable from stockholders (Note 1) .....	(277)	(346)
Total stockholders' equity .....	28,281	29,255
Total liabilities and stockholders' equity .....	\$84,946	\$151,135

The accompanying notes are an integral part of these consolidated financial statements.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

	Year Ended December 31,	
	2006	2005
Net sales .....	\$23,102	\$13,310
Cost of goods sold.....	22,887	12,777
Gross profit .....	215	533
Selling, general and administrative expenses.....	4,605	4,692
Loss on asset sale and impairments (Notes 1 and 11).....	—	100
Operating loss .....	(4,390)	(4,259)
Interest expense.....	(799)	(977)
Gain on sale of stock of affiliate (Note 5).....	1,237	—
Dividend and interest income .....	1,786	761
Realized gains on sale of securities.....	1,206	504
Other expense, net.....	(18)	(77)
Loss before income taxes, equity in earnings of affiliate and discontinued operations .....	(978)	(4,048)
Income tax (provision) benefit.....	(81)	2,155
Loss before equity in earnings of affiliate and discontinued operations .....	(1,059)	(1,893)
Equity in earnings of affiliate.....	1,796	—
Income (loss) from continuing operations .....	737	(1,893)
Discontinued operations (Note 4):		
Income from discontinued operations (including gain on sale of Exeon of \$25,639 in 2006).....	33,919	10,345
Income tax provision.....	(14,120)	(3,879)
Income from discontinued operations.....	19,799	6,466
Net income .....	20,536	4,573
Preferred stock dividends.....	(400)	(445)
Net income applicable to common stock .....	\$20,136	\$ 4,128
Net income per share of common stock: (Note 10)		
Basic:		
Income (loss) attributable to common stock from continuing operations .....	\$0.03	\$(0.15)
Income from discontinued operations .....	1.55	0.41
Net income per basic share of common stock .....	\$1.58	\$0.26
Diluted:		
Income (loss) from continuing operations.....	\$0.03	\$(0.15)
Income from discontinued operations .....	0.86	0.41
Net income per diluted share of common stock .....	\$0.89	\$ 0.26
Weighted average shares outstanding:		
Basic .....	12,749	15,861
Diluted .....	23,064	15,861

The accompanying notes are an integral part of these consolidated financial statements.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands, except share data)

	Year Ended December 31,			
	2006		2005	
	Shares	Amount	Shares	Amount
Common stock:				
Balance at beginning of period..	25,239,696	\$2,524	24,670,054	\$2,467
Shares issued pursuant to the Series A Preferred Stock conversion .....	1,227,448	123	551,309	55
Exercise of stock options .....	198,673	20	18,333	2
Balance at end of period.....	<u>26,665,817</u>	<u>2,667</u>	<u>25,239,696</u>	<u>2,524</u>
Capital in excess of par value:				
Balance at beginning of period..		169,156		168,446
Compensation expense related to restricted stock and certain stock options, less vested shares released from Treasury .....		424		471
Shares issued pursuant to the Series A Preferred Stock Conversion .....		504		227
Exercise of stock options.....		160		12
Balance at end of period.....		<u>170,244</u>		<u>169,156</u>
9% cumulative convertible preferred stock:				
Balance at beginning of period..	177	177	177	177
Redemption of 9% Preferred Stock.....	—	—	—	—
Balance at end of period.....	<u>177</u>	<u>177</u>	<u>177</u>	<u>177</u>
Accumulated other comprehensive income (loss):				
Balance at beginning of period..		219		(20)
Realized net (gains) losses in value of securities (net of tax benefit of \$482 and \$200 respectively) .....		(724)		301
Change in unrealized gains (losses) on securities, (net of tax benefit of \$523 and \$41 respectively) .....		784		(76)
Change in minimum pension liability (net of tax benefit of \$7 and \$10, respectively) .		10		14
Balance at end of period.....		<u>289</u>		<u>219</u>

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)**  
(in thousands, except share data)

	Year Ended December 31,			
	2006		2005	
	Shares	Amount	Shares	Amount
Accumulated deficit:				
Balance at beginning of period..		(48,827)		(52,955)
Net income.....		20,536		4,573
Dividends on preferred stock.....		(400)		(445)
Balance at end of period.....		(28,691)		(48,827)
Treasury stock:				
Balance at beginning of period..	(10,873,427)	(93,648)	(10,929,985)	(93,705)
Stock options and grants.....	143,376	81	64,527	73
Reverse / forward split redemptions (Note 21).....	—	—	(7,969)	(16)
Modified Dutch Auction redemptions .....	(6,684,670)	(22,561)	—	—
Balance at end of period .....	(17,414,721)	(116,128)	(10,873,427)	(93,648)
Receivable from stockholders:				
Balance at beginning of period..		(346)		(415)
Forgiveness of Officers' loans ...		69		69
Balance at end of period.....		(277)		(346)
Total stockholders' equity.....		\$28,281		\$29,255
Comprehensive income (Note 10) .		\$20,606		\$ 4,812

The accompanying notes are an integral part of these consolidated financial statements.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

	<u>Year Ended December 31,</u>	
	2006	2005
Cash flows from operating activities:		
Net income.....	\$20,536	\$ 4,573
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of Exeon assets .....	(25,639)	—
Depreciation .....	277	1,328
Loss on sale of asset and subsidiary stock.....	258	1,563
Realized gain on sale of stock of affiliate.....	(1,237)	—
Realized gains on sale of investments in securities .....	(1,206)	(501)
Amortization of deferred debt issuance costs and accretion of debt discount.....	611	804
Compensation expense related to stock options and grants.....	567	615
Deferred income taxes.....	4,527	(2,706)
Minority interest in income of subsidiary.....	1,617	1,124
Increase in fair value of warrants .....	—	375
Loss on purchase of minority interest in subsidiary .....	43	—
Equity in income of affiliate.....	(1,796)	—
Change in assets and liabilities:		
Accounts receivable, net.....	68,869	(28,108)
Receivable from affiliate .....	(4,192)	—
Inventories, net .....	(26,811)	8,993
Other current assets .....	(992)	120
Other assets.....	(345)	(187)
Accounts payable .....	(12,144)	11,392
Accrued expenses .....	(14,473)	4,067
Other, net.....	662	703
Cash flows provided by operating activities .....	<u>9,132</u>	<u>4,155</u>
Cash flows from investing activities:		
Capital expenditures .....	(162)	(2,643)
Purchase of marketable securities.....	(116,486)	(4,036)
Proceeds from sale of assets .....	229	1,035
Decrease in restricted cash.....	25	28
Proceeds from sale of investments.....	124,297	17,283
Advances under loans to affiliate.....	(6,100)	(1,750)
Proceeds under loans to affiliate.....	4,224	351
Proceeds from sale of Exeon assets, net of transaction costs.....	53,981	—
Proceeds from sale stock of affiliate.....	1,237	—
Purchase of minority interest and warrant .....	(8,500)	—
Investment in affiliate .....	(10,000)	—
Cash flows provided by investing activities.....	<u>42,745</u>	<u>10,268</u>

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
(in thousands)

	Year Ended December 31,	
	2006	2005
Cash flows from financing activities:		
Borrowings (repayments) under revolving credit facilities, net.....	(25,597)	(13,525)
6% Junior Subordinated Notes redemption.....	(2,563)	(1,101)
Repayments of long-term borrowings.....	—	(382)
Proceeds from sale of minority investment interest in subsidiary.....	—	1,241
Proceeds from exercise of stock options.....	188	14
Dividends on preferred stock.....	(400)	(445)
Modified Dutch Auction redemptions.....	(22,561)	—
Other.....	—	(16)
Cash flows used for financing activities.....	(50,933)	(14,214)
Net increase in cash and cash equivalents.....	944	209
Cash and cash equivalents at beginning of year.....	642	433
Cash and cash equivalents at end of year.....	\$ 1,586	\$ 642
Supplemental disclosures:		
Cash paid for interest.....	\$ 558	\$3,417
Cash paid for income taxes, net.....	\$13,381	\$3,965

The accompanying notes are an integral part of these consolidated financial statements.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies**

*Basis of presentation and description of business*

The accompanying consolidated financial statements represent the accounts of The Alpine Group, Inc. and the consolidation of all of its majority-controlled subsidiaries (collectively "Alpine" or the "Company", unless the context otherwise requires) with the exception of its 52% owned subsidiary, Superior Cables Ltd. ("SCL") which is accounted for using the equity method. According to accounting principles generally accepted in the United States of America, Alpine's financial statements are required to include the consolidation of SCL. However, since the Company intends to reduce its ownership of SCL to below 50% the equity method is utilized in the financial statements presented herein. The inclusion of SCL on a consolidated basis would not impact the consolidated net income of Alpine. Summary financial information related to SCL for 2006 is presented below:

	<b>December 31, 2006</b>
<b>Balance Sheet</b>	
Current assets.....	\$115,468
Long-term assets.....	79,918
Total assets .....	<b>\$195,386</b>
Current liabilities .....	\$105,944
Long-term liabilities .....	66,418
Stockholders' equity.....	23,024
Total liabilities and stockholders' equity .....	<b>\$195,386</b>
<b>Statement of Operations</b>	
Net sales.....	\$233,445
Net income.....	\$ 5,738

Alpine was incorporated in New Jersey in 1957 and reincorporated in Delaware in 1987. Alpine is a holding company which over the recent past has owned and operated industrial and other manufacturing companies. At December 31, 2006 Alpine's operations consisted of its 52% ownership in Superior Cables Ltd., an Israeli based producer of wire and cable products and Essex Electric Inc., a wholly owned subsidiary, primarily engaged in the business of copper scrap reclamation. Essex Electric Inc. changed its name to Exeon Inc. ("Exeon") on January 31, 2007. Superior Cables Ltd. changed its name to Synergy Cables Ltd. ("SCL") on April 23, 2007.

Prior to January 31, 2006, Exeon was engaged primarily in the manufacture and sale of electrical building wire and cable. On January 31, 2006 substantially all of the assets of Exeon were sold. This transaction is referred to herein as the "Exeon Sale" (see Note 4). A pretax book gain of approximately \$25.6 million was recorded in the first quarter of 2006 related to this disposition. The results of operations of Exeon's building wire business for all periods contained herein have been presented as discontinued operations (see Note 4). The remaining sales and results of continuing operations for Exeon relate to the aforementioned copper scrap reclamation business.

*Significant customers*

Two customers accounted for 60% and 17% of net sales for the year-ended December 31, 2006. The same two customers accounted for 48% and 45%, respectively, for the year-ended December 31, 2005.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Cash and cash equivalents***

All highly liquid investments purchased with a maturity at acquisition of 90 days or less are considered to be cash equivalents.

***Marketable securities***

Statement of Financial Accounting Standards (“SFAS”) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, requires securities to be classified as held to maturity, available for sale or trading. Only those securities classified as held to maturity, which the Company intends and has the ability to hold until maturity, are reported at amortized cost. Available for sale securities are reported at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of related income taxes, respectively. All of the Company’s investment securities were classified as available for sale at December 31, 2006 and 2005. The following table shows the unrealized gains (losses) and fair value of the Company’s investments aggregated by investment category as of December 31, 2006 and 2005:

<u>Description of Securities</u>	<b>December 31, 2006</b>			
	(in thousands)			
	<u>Cost Basis</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses (b)</u>	<u>Fair Value</u>
Money market funds .....	\$ 542	\$ —	\$ —	\$ 542
Municipal bonds and notes (a).....	6,205	1	—	6,206
Preferred securities .....	250	—	—	250
Subtotal .....	6,997	1	—	6,998
Less: Restricted (See note below).....	(2,810)	—	—	(2,810)
Total .....	<b>\$ 4,187</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$4,188</b>

<u>Description of Securities</u>	<b>December 31, 2005</b>			
	(in thousands)			
	<u>Cost Basis</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses (c)</u>	<u>Fair Value</u>
Money funds / sweep options .....	\$ 1,117			\$ 1,117
Marketable equity securities .....	4,836	\$ 88	\$(174)	4,750
Municipal bonds and notes (a).....	10,100			10,100
Mutual funds.....	2,244	69	(19)	2,294
Preferred securities .....	250			250
Total .....	<b>\$18,547</b>	<b>\$157</b>	<b>\$(193)</b>	<b>\$18,511</b>

- (a) The maturity dates on the municipal bonds and notes exceed 25 years.
- (b) There were no unrealized losses as of December 31, 2006.
- (c) None of the gross unrealized losses exceeded 12 months as of December 31, 2005

Alpine reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, credit quality and Alpine’s ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

In October 2006, Alpine established a \$25 million credit line utilizing cash, cash equivalents and marketable securities as collateral at specified advance rates. As of December 31, 2006 the balance outstanding on the credit line was zero. There are no financial covenants associated with this line of credit.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Restricted cash and marketable securities***

Pursuant to the Exeon Sale (see Note 4), Exeon (and/or Alpine as guarantor) agreed to maintain encumbrance free through July 31, 2007 an amount equal to \$2.8 million in (a) cash, (b) cash equivalents or (c) marketable securities. This amount is classified as restricted cash and marketable securities at December 31, 2006 and since the restriction period is less than one year from the balance sheet date herein, it is classified as a current asset.

***Other Investments***

The Company has an investment in a limited partnership investment fund which, due to the Company's less than 1% ownership in the partnership, is accounted for on a cost basis. Since such investment is accounted for on a cost basis, the \$9.5 and \$4.5 million balances at December 31, 2006 and 2005, respectively, do not reflect appreciation in the investment. The estimated fairvalue of the investment as of December 31, 2006, based upon the valuation of the underlying assets as provided by this limited partnership, was \$10.6 million.

***Accounts receivable from affiliate***

At December 31, 2006 Exeon had \$4.2 million in accounts receivable due from SCL pursuant to the agreement between Exeon and SCL for the sale of copper rod by Exeon to SCL. The \$4.2 million was received on January 2, 2007.

***Inventories***

Inventories are stated at the lower of cost or market. At December 31, 2006 and 2005, cost for the Exeon inventory is determined using the last-in, first-out ("LIFO") method. The Company determines whether a lower of cost or market provision is required on a quarterly basis by analyzing the current replacement cost of the inventory compared to its carrying value. As of December 31, 2006 a lower of cost or market adjustment of \$1.6 million primarily related to the copper rod purchased for resale to SCL (see Note 2), was recorded. The adjustment reflected the decrease in copper prices from the time the copper rod was purchased and December 31, 2006. Hedging transactions were entered into at the time of such purchases and the effect on earnings from the lower of cost or market adjustment was negated by a mark-to-market adjustment for the related hedge instruments (see Note 16).

***Property, plant and equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the lease term. Depreciation and amortization are provided over the estimated useful lives of the assets using the straight-line method. The estimated lives are as follows:

Buildings and improvements.....	5 to 40 years
Machinery and equipment.....	3 to 15 years

Maintenance and repairs are charged to expense as incurred. Long-term improvements are capitalized as additions to property, plant and equipment. Upon retirement or other disposal, the asset cost and related accumulated depreciation are removed from the accounts and the net amount, less any proceeds, is charged or credited to income.

***Income taxes***

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for both the expected future tax impact of temporary differences arising from assets and liabilities whose tax bases are different from financial statement amounts and for the expected future tax benefit to be derived from tax loss carryforwards. A valuation allowance is established if it is more likely than not that all or a portion of deferred tax assets will not be realized. Realization of the future tax benefits of deferred tax assets (including tax loss carryforwards) is dependent on Alpine's ability to generate taxable income within the carryforward period and the periods in which net temporary differences reverse.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Although no assurance can be given that sufficient taxable income will be generated for utilization of certain of the Company's consolidated net operating loss carryforwards or for reversal of certain temporary differences, the Company believes it is more likely than not that all of the deferred tax assets, after valuation allowance, will be realized.

Significant judgment is required in determining our consolidated income tax provision and evaluating our U.S. tax position. It is our policy to maintain tax contingency reserves for potential tax audit issues and uncertain tax positions. The Company reviews the reserves as circumstances warrant and adjusts the reserves as events occur that affect our potential liability for additional taxes, such as lapsing of applicable statutes of limitations, conclusion of tax audits, additional exposure based on current calculations, identification of new issues or rendering of court decisions affecting a particular tax issue. Tax reserve contingencies and changes to the reserves are evaluated and recorded in our tax provision in the period in which the above noted events occur.

***Subsidiary stock transactions***

The Company's ownership percentage in subsidiary stock is impacted by the Company's purchase of additional subsidiary stock, as well as subsidiary stock transactions, including the subsidiary's purchase of its own stock and the subsidiary's issuance of its own stock. The Company records all gains and losses related to subsidiary stock transactions through other income and expense.

In January 2005, Alpine Holdco purchased 1,792 shares of Exeon common stock for a cash purchase price of \$5.0 million and Superior Essex Inc. (formerly known as Superior TeleCom, Inc.) ("Superior"), the other shareholder of Exeon, purchased 445 shares of Exeon common stock for a cash purchase price of \$1.2 million, resulting in Alpine Holdco Inc. (a wholly owned subsidiary of Alpine) and Superior owning 84.2% and 15.8% of Exeon, respectively. In accordance with accounting principles generally accepted in the United States of America, the Company accounted for the sale of stock of Exeon as a loss on sale of subsidiary stock of approximately \$0.9 million and decreased the value of a warrant held by such other shareholder to purchase 199 shares of Exeon common stock (the "Warrant") by \$0.4 million due to the dilutive impact of the additional 2,237 shares issued. The Warrant is recorded as a liability in the consolidated balance sheet at its fair value at December 31, 2005 of \$1.3 million. On January 25, 2006 Alpine purchased 614 shares of Exeon and the Warrant from Superior for a purchase price of \$8.5 million. As a result, Alpine owned 100% of the total outstanding capital stock of Exeon as of that date.

***Derivative financial instruments***

The Company applies SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS No. 137 and SFAS No. 138, and SFAS No. 149 *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* for its derivative financial instruments. These statements establish accounting and reporting standards for derivative instruments and require recognition of all derivatives as either assets or liabilities in the statements of financial position and measurement of those instruments at fair value.

All derivatives are recognized on the balance sheet at fair value. On the date the derivative contract is entered, the Company designates the derivative as either (i) a fair value hedge of a recognized asset or liability, (ii) a cash flow hedge of a forecasted transaction, (iii) a hedge of a net investment in a foreign operation, or (iv) a non-designated derivative instrument. During the years 2005 and 2006 the Company engaged only in non-designated derivative instruments. During the years 2005 and 2006, the Company utilized derivatives solely to hedge certain transactions involving the purchase and/or sale of copper based products. The Company attempts to mitigate any loss on the purchase and sale of copper products through the use of futures contracts on either the LME or COMEX metal exchanges. Changes in the fair value of non-designated derivative contracts are reported in current earnings. At December 31, 2006, the Company had approximately \$21.2 million of copper futures contracts representing 7.4 million copper pounds outstanding as non-designated derivative instruments. These contracts were recorded at fair value at December 31, 2006. There were \$2.7 million of copper futures contracts representing 1.3 million copper pounds outstanding at December 31, 2005.

The Company does not currently utilize any hedging instruments that are designated for hedge accounting treatment. If such transactions were to arise, the Company would be required to formally document all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking various hedge transactions. Derivative financial instruments and derivative transactions reflected in the consolidated financial statements are discussed in Note 16.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Revenue recognition***

Revenue on scrap sales is recognized when the product is shipped to the customer, which is when title and risk of loss pass. The Company's price to the buyer is fixed and determinable based upon the price set forth in a written order from the customer. For products bought and resold to SCL, in accordance with Emerging Issues Task Force ("EITF") 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent", revenue is recognized on a "net as an agent" basis. While the Company does take title and bears all risks of ownership, there are other indicators, such as the fact the Company's supplier is responsible for the fulfillment of the order, including acceptability of the product as well as the fact that the Company only earns a stated percentage of the amount billed to SCL, that result in the sales being recorded on a net basis. Therefore, only the incremental fee earned on the sales is recorded in net revenues in the statement of operations. Revenue on these sales is recognized when title transfers which is the earlier of consumption or payment.

***Shipping and handling***

All shipping and handling costs are included in costs of sales and all billings associated with these costs are included in revenues.

***Earnings per share***

Basic earnings per common share is computed by dividing net income applicable to common stock by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per common share is determined assuming (i) the conversion of outstanding stock options, warrants and grants under the treasury stock method, (ii) the conversion of convertible preferred stock and (iii) the dilution in subsidiary earnings resulting from the assumed conversion of subsidiary stock options and grants, if dilutive.

***Comprehensive income***

Comprehensive income includes all changes in equity from non-owner sources such as net income, foreign currency translation adjustments, unrealized gains and losses on available-for-sale securities and minimum pension liability adjustments. Accumulated other comprehensive income net of tax was approximately \$0.1 and \$0.2 million as of December 31, 2006 and 2005, respectively.

***Impairment of Long-Lived Assets***

In accordance with SFAS No. 144, *Accounting for the Impairment for Disposal of Long-lived Assets*, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset group. Assets to be disposed of are included in other current assets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the balance sheet. The gain (loss) on asset sales (excluding assets sold in the Exeon Sale – see Note 4) and impairment (net of recoveries) for 2006 and 2005 were \$(0.0) and \$(0.6) million, respectively, of which \$(0.5) million in 2005 related to discontinued operations and is recorded therein for 2005. See Note 11 for details.

***Contingencies***

The Company is involved in various legal proceedings and contingencies. Liabilities for these matters are recorded in accordance with SFAS No. 5, *Accounting for Contingencies*. SFAS 5 requires a liability to be recorded based on management's estimate of the probable cost of the resolution of a contingency. The actual resolution of these contingencies may differ from such estimates. If a contingency is settled for an amount greater than the Company's estimate, a future charge to income would result. Likewise, if a contingency is settled for an amount that is less than the Company's estimate, a future credit to income would result.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Use of estimates*

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment and intangible assets; valuation allowances for receivables, inventories, and deferred income tax assets; liabilities for income tax and other tax contingencies; self-insurance reserves; valuation of derivative instruments; and obligations related to employee benefits. Actual results could differ from those estimates.

*Restructuring costs*

The Company adopted SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* effective January 1, 2003. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. The restructuring costs incurred during the years ended December 31, 2006 and 2005 have been accounted for in accordance with SFAS No. 146. These costs are included in discontinued operations.

*Guarantees*

The Company adopted FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34* effective January 1, 2003. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. Since 1993, Alpine has been a party to a guaranty of obligations of a former affiliate, under a lease by such former affiliate of a manufacturing facility in Brownwood, Texas. The lease currently provides for monthly payments of \$56,000 subject to adjustments for changes in the consumer price index. The lease term expires in 2018 but may be extended through 2033. As such, the maximum potential amount of future payments under the guaranty through 2018 would be approximately \$8 million. Any further extensions would amount to a guarantee of approximately \$0.7 million per year. While Alpine's continuing obligations, if any, under the guaranty are not free from doubt, the Company believes the facility and underlying lease are valuable assets of such former affiliate and expects that such former affiliate will perform as tenant thereunder and continue to pay its obligations. In addition, Alpine would have a claim for indemnification and reimbursement from the former affiliate in respect of any amounts paid by Alpine as guarantor.

In connection with the Exeon Sale in January 2006, the Company guaranteed that Exeon would maintain not less than \$2.8 million in cash and cash equivalent assets through July 2007.

The Company is not a party to any other guarantees and implementation of FASB Interpretation No. 45 did not have a material effect on the Company's financial statements.

*Stock-Based Employee Compensation Plans*

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123R, *Share-Based Payment* ("SFAS 123R"), utilizing the modified prospective method. SFAS 123R requires the recognition of stock-based compensation expense in the consolidated financial statements for awards of equity instruments to employees and non-employee directors based on the grant-date fair value of those awards, estimated in accordance with the provisions of SFAS 123R. The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Under the modified prospective method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), are recognized in net income in the periods after the date of adoption. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under the prior accounting rules. This

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

requirement reduces net operating cash flow and increases net financing cash flows in periods after adoption. Total cash flow remains unchanged from what would have been reported under the prior accounting rules.

Prior to the adoption of SFAS 123R, the Company followed the intrinsic value method to account for its employee stock option plans (ESOP Plans) in accordance with the recognition and measurement principles of Accounting Principles Board Opinion (“APB”) No. 25, *Accounting for Stock Issued to Employees* and Related Interpretations (“APB No. 25”), as allowed by SFAS 123 and as amended by SFAS No. 148, *Accounting for Stock-Based-Compensation – Transition and Disclosure*. Accordingly, no stock-based employee compensation was recognized on account of the ESOP plan, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant and, with respect to the employee stock purchase plan, the discount did not exceed fifteen percent. In accordance with the transitional provisions of SFAS 123R, operating results for 2005 have not been restated. The Company historically reported pro forma results under the disclosure-only provision of SFAS 123.

**2. Inventories**

At December 31, 2006 and 2005, the components of inventories are as follows:

	December 31, 2006	December 31, 2005
(in thousands)		
Raw materials .....	\$31,732	\$ —
Work in process .....	6,176	393
	37,908	393
Lower of cost or market adjustment .....	(1,620)	—
LIFO reserve .....	(363)	(248)
	\$35,925	\$ 145

All inventories at December 31, 2006 and 2005, are valued using the LIFO method of accounting. In August 2006 Exeon and SCL entered into a supply agreement pursuant to which Exeon could elect to purchase copper rod for resale to SCL for use in SCL’s manufacturing operations. In accordance with the agreement Exeon has purchased \$50 million of copper rod for resale to SCL, a portion of which SCL purchased and used during the fourth quarter and the balance of which is contractually required to be purchased and used by SCL in early 2007. As a result, Exeon and the Company’s inventory at December 31, 2006 included \$32 million of copper rod purchased for resale to SCL. As of December 31, 2006, the Company recorded a lower of cost or market adjustment, primarily related to copper rod inventory purchased for resale to SCL. The adjustment represents the decline in copper prices between the time the inventory was purchased and December 31, 2006. These copper purchases were hedged and, therefore, the mark-to-market gain on the hedge serves to offset the related lower of cost or market adjustment. Effective December 11, 2002, the Company established two LIFO pools for Exeon inventory consisting, respectively, of copper and all other inventory components. During 2006 in conjunction with the Exeon Sale, the Company wrote off all but \$0.2 million of its book LIFO reserve. The inventories sold in connection with the Exeon Sale are included in current assets of discontinued operations in the December 31, 2005 Balance Sheet.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Property, plant and equipment**

At December 31, 2006 and 2005, property, plant and equipment consisted of the following:

	December 31, 2006	December 31, 2005
	(in thousands)	
Land .....	\$ 27	\$ 27
Buildings and improvements .....	143	143
Machinery and equipment .....	422	422
Gross property, plant and equipment .....	592	592
Less accumulated depreciation .....	(240)	(164)
Net property, plant and equipment .....	\$ 352	\$ 428

Depreciation expense for the years ended December 31, 2006 and 2005, was \$0.1 million, for each year.

During 2005, Exeon donated land and building at a former manufacturing site in Orleans, IN to the Business Reform Foundation and in accordance with SFAS 116, *Accounting for Contributions Received and Contributions Made*, the Company recorded a \$0.8 million loss for the book value. The Company recorded a tax benefit of \$1.3 million for the tax effect of the deduction for the donation.

**4. Discontinued operations**

**Exeon Sale**

On January 31, 2006, Exeon completed the sale of certain of its assets comprising its building wire business to Southwire Company ("Southwire"), which we refer to at times as the Exeon Sale. The transaction was provided for and consummated pursuant to an asset purchase agreement between Exeon, as seller and Southwire, as buyer, dated September 30, 2005. The agreement provided for the sale by Exeon of all of its closing date building wire related inventory and prepaid assets, its Florence, Alabama manufacturing plant and equipment, and the assumption by Southwire of certain contracts and selected current liabilities related to the business. Exeon retained substantially all of its other liabilities including the indebtedness under its revolving credit facility. Excluded from the sale were cash and cash equivalents and accounts receivable of Exeon, a copper scrap reclamation plant and operation based in Jonesboro, Indiana, a plastic resin compounding plant and operation based in Marion, Indiana, and three leased warehouse distribution centers. The scrap reclamation operation serviced both Exeon's internal requirements for scrap processing, as well as external customers. The purchase price was the sum of (i) \$27 million plus (ii) the closing date value of Exeon's inventory and certain prepaid assets.

The purchase price of \$55.6 million was paid in cash by Southwire at closing and was subject to customary post-closing review and adjustment by the parties in accordance with certain agreed upon procedures provided for under the asset purchase agreement, which adjustment amount was not significant. In connection with the consummation of the sale, Exeon repaid in full and terminated its revolving credit facility.

As of December 31, 2005, the net assets to be disposed of pursuant to the Exeon Sale did not meet all of the requirements of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in order to be classified as assets held for sale or discontinued operations since completion of the sale required Alpine stockholder approval. However, such approval occurred at a special meeting of stockholders of Alpine on January 26, 2006 and the Exeon Sale closed on January 31, 2006. In addition the Company closed its Marion, Indiana plastic resin compounding plant during the fourth quarter of 2006. Accordingly, the 2005 financial statements have been adjusted to present the assets, liabilities and results of operations related to these operations as discontinued operations consistent with the 2006 presentation.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Discontinued operations (Continued)**

The assets and liabilities included in the consolidated financial statements relating to the operations of Exeon sold in the Exeon Sale are as follows:

<b>ASSETS</b>	<b>December 31, 2006</b>	<b>December 31, 2005</b>
(in thousands)		
Current assets:		
Accounts receivable .....	\$ 156	\$ 67,398
Inventories, net of LIFO reserve of \$29,740 at December 31, 2005 .....	37	21,278
Assets held for sale .....	315	—
Deferred income taxes .....	—	7,979
Other current assets .....	1,529	1,789
Total current assets .....	2,037	98,444
Property, plant and equipment, net .....	—	17,299
Other assets .....	—	791
Total assets .....	\$ 2,037	\$116,534

<b>LIABILITIES</b>		
Current liabilities:		
Revolving credit facility .....	\$ —	\$ 26,725
Accounts payable .....	202	24,595
Accrued expenses .....	1,374	11,426
Deferred income taxes .....	83	—
Income taxes payable .....	524	4,997
Total current liabilities .....	2,183	67,743
Deferred income taxes .....	—	2,628
Total liabilities .....	2,183	70,371
Net assets (liabilities) .....	\$ (146)	\$ 46,163

The revenues and pretax income included in the accompanying statement of operations which is included in the consolidated financial statements contained herein related to the operations sold in the Exeon Sale are as follows:

	<b>Twelve Months Ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
(in thousands)		
Net sales .....	\$64,473	\$434,505
Pretax income (loss) .....	33,919	10,345

The net sales and pretax income for the year ended December 31, 2006 includes the results of operations for January 2006 while the discontinued operations were still owned by Exeon, the pre-tax gain on the Exeon sale and the loss from discontinued operations for the eleven month period ended December 31, 2006. Included in the pretax income for the year ended December 31, 2006 is approximately \$12.4 million of income resulting from a LIFO decrement due to a significant decrease in inventories in January 2006. The Company recorded \$6.4 million of income related to discontinued operations on its LIFO decrement in 2005.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Discontinued operations (Continued)**

Below is a table with the costs associated with the activities related to the Exeon Sale:

	Total expected to be incurred	Incurred in three months ended December 31, 2006	Total costs incurred through December 31, 2006	Liability as of December 31, 2006
(in thousands)				
One time termination benefits (a).....	\$2,899	\$137	\$2,459	\$ 315
Contract termination costs (b).....	2,991	436	2,991	611
Write-down of idled assets (c).....	352	97	352	—
Transition and other costs (d).....	2,200	41	1,328	27
Totals all costs.....	\$8,442	\$711	\$7,130	\$ 953

- (a) Certain severance payments and transactional bonuses were accrued as of the January 31, 2006 closing date of the Exeon Sale. The remaining liability represents primarily unpaid severance for employees remaining with the Company through a transitional phase which is expected to be completed in the first half of 2007.
- (b) Includes a prepayment penalty and other loan fees related to the revolving credit facility that was terminated concurrently with the sale, as well as an accrual for the present value of future lease obligations for discontinued facilities, net of estimated income from sub-lease arrangements. The liability remaining as of December 31, 2006 represents the unamortized portion of the future lease obligations.
- (c) Represents the write-down of certain assets that became surplus or obsolete with the sale.
- (d) Includes personnel and other costs associated with the post - Exeon Sale transition period.

The costs incurred above are included in income from discontinued operations in the statement of operations. Approximately \$0.8 million of transaction bonus payments made to certain executives are being deferred and amortized over the period in which earned, since such amounts must be repaid should the executives voluntarily terminate employment prior to December 31, 2007. Approximately one-half of that amount had been amortized as of December 31, 2006.

**5. Investment in affiliate**

On February 22, 2006, Alpine and Shrem Fudim Kelner Technologies Ltd., (“SFKT”), an unrelated Israeli company, entered into an agreement (the “Agreement”), whereby Alpine and SFKT agreed to invest \$10 million and \$5 million, respectively, in newly issued shares of SCL. Concurrently, Alpine and SFKT entered into an agreement which provides for (i) certain restrictions upon sale and disposition of SCL ordinary shares, (ii) rights of first offer and "tag along" rights in regard to certain proposed sales of SCL shares, (iii) mutual support and voting for candidates for election to the SCL board of directors, and (iv) sharing of certain management fees payable by SCL.

On February 23, 2006, SCL’s principal lender agreed to extend approximately \$11 million in long term indebtedness of SCL and convert \$15 million in SCL indebtedness into a non-interest bearing subordinated loan repayable only upon liquidation of SCL and exchangeable into 15% of SCL share capital. In conjunction with this refinancing by SCL, the Company sold 9.28 million shares of SCL common stock previously acquired in December 2002 and recorded a \$1.2 million gain on sale of stock of affiliate during the second quarter of 2006. The foregoing agreements were closed on June 26, 2006 and as a result the Company owns approximately 52% of SCL.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Revolving Credit Facility**

On December 19, 2006, Exeon entered into a loan agreement with a bank providing for maximum borrowing of \$5 million. Borrowing availability is determined by reference to a borrowing base that permits advances to be made at net valuation rates against accounts receivable and inventories of Exeon's scrap reclamation business. Interest is payable monthly in arrears and is based on a floating bank base rate less 50 basis point. The effective rate as of December 31, 2006 was 7.75%. The loan is collateralized by the assets of the scrap reclamation business indicated above including the property, plant and equipment located at the scrap processing facility in Jonesboro, Indiana. The loan is also governed by certain financial covenants common to such agreements. As of December 31, 2006, \$1.1 million was outstanding under the loan agreement with borrowing availability of \$2.8 million.

**7. Long-term debt**

At December 31, 2006 and 2005, long-term debt consists of the following:

	December 31, 2006	December 31, 2005
(in thousands)		
6% Junior Subordinated Notes due 2010, net of \$0.1 and \$0.6 million discount, respectively .....	\$469	\$2,456
Less current portion of long-term debt .....	130	—
	\$339	\$2,456

On August 4, 2003, the Company completed an exchange offer whereby holders of its common stock exchanged 3,479,656 shares for \$4.3 million principal amount of 6% Junior Subordinated Notes (the "Subordinated Notes") issued by the Company plus a nominal amount of cash in lieu of fractional notes. The Subordinated Notes were initially recorded at an amount equal to the fair value of the common stock exchanged resulting in an initial discount of \$1.4 million. During 2006 and 2005, the Company retired \$2.6 and \$1.1 million of the Subordinated Notes and recorded \$0.5 million and \$0.2 million of additional interest expense related to the acceleration of the related unamortized discount, respectively.

At December 31, 2006 and 2005, the fair value of the Company's debt approximates carrying value.

The aggregate principal maturities of long-term debt subsequent to December 31, 2006, were as follows:

<u>Year Ending</u>	<u>(in thousands)</u>
2007 .....	\$130
2008 .....	130
2009 .....	130
2010 .....	130
Total obligation.....	520
Unamortized discount.....	(51)
	\$469

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Income taxes**

The (provision) benefit for income taxes for the years ended December 31, 2006 and 2005, is comprised of the following:

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(in thousands)	
Current:		
Federal .....	\$ (838)	\$1,367
State .....	(30)	490
Total current from continuing operations .....	(868)	1,857
Deferred:		
Federal .....	618	(623)
State .....	169	921
Total deferred from continuing operations .....	787	298
Income taxes from continuing operations .....	(81)	2,155
Income taxes from discontinued operations .....	(3,865)	(3,879)
Provision for taxes on gain on sale of Exeon .....	(10,255)	—
Total income tax provision .....	<u>\$ (14,201)</u>	<u>\$ (1,724)</u>

The provision (benefit) for income taxes from continuing operations differs from the amount computed by applying the U.S. federal income tax rate of 35% for the years ended December 31, 2006 and 2005, because of the effect of the following items:

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(in thousands)	
Continuing operations:		
Expected income tax expense (benefit) at U.S. federal statutory tax rate .....	\$ 286	\$ (1,417)
State income taxes, net of U.S. federal income tax benefit .....	(90)	(917)
Equity in earnings of foreign affiliate .....	(630)	—
Gain on sale of stock of foreign affiliate .....	(433)	—
Non deductible compensation .....	228	—
Change in valuation allowance .....	39	(50)
Change in reserves .....	680	192
Other, net .....	1	37
Income tax provision (benefit) from continuing operations .....	<u>\$ 81</u>	<u>\$ (2,155)</u>

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Income taxes (Continued)**

Items that result in deferred tax assets and liabilities and the related valuation allowance at December 31, 2006 and 2005 are as follows:

	<b>December 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>	
<b>Continuing Operations</b>		
Deferred tax assets:		
Accrued expenses not currently deductible .....	\$ 677	\$ 701
Compensation expense related to unexercised stock options and stock grants .....	2,697	2,788
Net operating loss carryforwards .....	2,315	2,315
Other .....	639	665
Total deferred tax assets .....	6,328	6,469
Less valuation allowance .....	(2,789)	(2,750)
Net deferred tax assets .....	3,539	3,719
Deferred tax liabilities:		
Depreciation .....	33	80
Inventory .....	13,369	14,361
Total deferred tax liabilities .....	13,402	14,441
Net deferred tax liability .....	9,863	10,722
Net long-term deferred tax assets .....	2,828	2,941
Net current deferred tax liability .....	\$12,691	\$13,663
<b>Discontinued Operations</b>		
Deferred tax assets:		
Accruals not currently deductible for tax .....	\$ —	\$ 556
Inventory .....	—	8,394
Other .....	—	7
Total deferred tax assets .....	—	8,957
Deferred tax liabilities:		
Accruals not currently deductible for tax .....	83	—
Depreciation .....	—	3,606
Total deferred tax liabilities .....	83	3,606
Net deferred tax assets (liabilities) .....	(83)	5,351
Net long-term deferred tax assets .....	—	7,979
Net deferred tax liabilities .....	\$ 83	\$ 2,628

The Company provides reserves for liabilities that may arise as a result of income tax exposures arising in the normal course of its business. These exposures may result from specific positions taken by the Company in its tax returns or from tax planning strategies employed by the Company to minimize its tax liabilities. Management determines tax exposure items based on positions asserted by tax authorities as well as management's assessment of exposures from unasserted items. The calculation of the income tax provision involves significant estimates and assumptions and actual results could differ from those estimates.

During 2001, the Company entered into commercial transactions intended to offset the potential impact of interest rate changes on the Company's investments, including the investment of the net cash proceeds from the sale of an equity investment. The Company claimed tax benefits from these transactions of \$11.2 million and \$3.2 million in 2001 and 2002, respectively. At December 31, 2001, the Company established a tax contingency reserve on its balance sheet corresponding to realized tax benefits. The balances in the reserve at December 31, 2006 and 2005 were \$17.8 and \$17.1 million, respectively. This reserve is classified as

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Income taxes (Continued)**

other long-term liabilities (see Note 9). The Company is evaluating the impact of adopting FIN 48 as of January 1 and is anticipating that substantially all of this tax contingency reserve will be reversed during 2007.

At December 31, 2006, Alpine had state net operating loss carryforwards (“NOL’s”) in the amount of \$3.4 million that can be used to offset future taxable income. The net operating loss carryforwards expire beginning in 2007 through 2023. Due to the surrender of authority for doing business in certain states, it is unlikely that Alpine will realize all of its state net operating loss carryforwards. Accordingly, Alpine has determined that, pursuant to the provision of SFAS No. 109, a deferred tax valuation allowance in the amount of \$1.9 million is required on those deferred tax assets. During 2006, approximately \$1.0 million of State NOL’s expired unused.

The Company did not provide for U.S. federal income taxes or non-U.S. withholding taxes on approximately \$1.8 million of undistributed earnings of its foreign equity investee as of December 31, 2006 because such earnings are intended to be reinvested indefinitely outside of the United States.

**9. Other long-term liabilities**

At December 31, 2006 and 2005, other long-term liabilities consist of the following:

	December 31, 2006	December 31, 2005
	(in thousands)	
Tax contingency reserve (see Note 8) .....	\$17,786	\$17,106
Other long-term liabilities .....	1,390	1,424
	\$19,176	\$18,530

**10. Comprehensive income**

The components of comprehensive income for the twelve months ended December 31, 2006 and 2005 were as follows:

	Twelve Months Ended December 31,	
	2006	2005
	(in thousands)	
Net income .....	\$20,536	\$4,573
Change in unrealized gains (losses) on investment securities, net of tax ...	60	225
Change in minimum pension liability, net of tax .....	10	14
Total comprehensive income .....	\$20,606	\$4,812

**11. Asset impairment, restructuring and other charges**

During the year ended December 31, 2005 the Company recorded \$3.1 million, of restructuring and other charges (included in Discontinued Operations herein) comprised of costs related to relocation and installation of certain equipment from closed facilities and the start-up of new manufacturing processes at Exeon’s Florence, AL manufacturing facility, and costs related to the wind-down of other facilities previously closed and other miscellaneous expenses related to the Company’s restructuring. Costs associated with the closedown of the Marion, Indiana operation (see Note 4), which were minimal, were included in discontinued operations. There were no other such charges during 2006.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Asset impairment, restructuring and other charges (Continued)**

The following tables illustrate the restructuring reserve and the related activities for 2006 and 2005:

	December 31, 2005	Charges	Payments	December 31, 2006
	(in thousands)			
Employee severance .....	\$ 10	\$ —	\$ 10	\$ —
Equipment and inventory relocation costs and other costs	23	—	23	—
	<u>\$ 33</u>	<u>\$ —</u>	<u>\$ 33</u>	<u>\$ —</u>

	December 31, 2004	Charges	Payments	December 31, 2005
	(in thousands)			
Employee severance .....	\$ —	\$ 804	\$ 794	\$10
Facility exit costs .....	—	1,423	1,423	—
Equipment and inventory relocation costs and other costs	—	841	818	23
	<u>\$ —</u>	<u>\$3,068</u>	<u>\$3,035</u>	<u>\$33</u>

The majority of the above restructuring costs related to the closing of the Anaheim, CA manufacturing facility of Exeon during the second quarter of 2005. Restructuring costs related to the Anaheim closure included \$0.8 million for severance and employee related costs, \$0.5 million for equipment and inventory relocation and \$0.7 million for facility clean up and preparation for sale.

**12. Earnings (loss) per share**

The computation of basic and diluted earnings (loss) per share for the years ended December 31, 2006 and 2005, is as follows:

	Year Ended December 31,					
	2006			2005		
Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount	
(in thousands, except per share amounts)						
<u>Basic earnings (loss) per share</u>						
Income (loss) from continuing operations .....	\$ 737	12,749	\$ 0.06	\$(1,893)	15,861	\$(0.12)
Adjustments:						
Preferred stock dividends ...	(400)	12,749	(0.03)	(445)	15,861	(0.03)
Income (loss) attributable to common stock from continuing operations .....	\$ 337	12,749	\$ 0.03	\$(2,338)	15,861	\$(0.15)
Income from discontinued operations (a).....	19,799	12,749	1.55	6,466	15,861	0.41
Net income applicable to common stock.....	<u>\$20,136</u>	<u>12,749</u>	<u>\$ 1.58</u>	<u>\$ 4,128</u>	<u>15,861</u>	<u>\$ 0.26</u>

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. Earnings (loss) per share (Continued)**

	Year Ended December 31,					
	2006			2005		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
	(in thousands, except per share amounts)					
Diluted earnings (loss) per share						
Basic income (loss) from continuing operations .....	\$ 337	12,749		\$(2,338)	15,861	\$(0.15)
Effect of dilutive securities:						
Restricted stock plans .....		354				
Stock option plans .....		478				
Convertible preferred stock	400	9,483				
Income (loss) attributable to common stock from continuing operations and assumed conversions .....	\$ 737	23,064	\$ 0.03	\$(2,338)	15,861	\$(0.15)
Income from discontinued operations (a) .....	19,799	23,064	0.86	6,466	15,861	0.41
Net income applicable to common stock .....	<u>\$20,536</u>	23,064	<u>\$ 0.89</u>	<u>\$ 4,128</u>	15,861	<u>\$ 0.26</u>

(a) - including gain on sale of Exeon of \$15,383 (net of tax) in 2006 (see Note 4).

Diluted earnings per share for the year ended December 31, 2006 excludes the effect of an average of 0.1 million restricted stock shares that may be vested in the future, because such effect would be anti-dilutive. The Company has excluded the assumed exercise of all stock options (1.3 million), vesting of restricted stock grants (0.8 million) and conversion of all preferred stock (14,181 preferred shares) from the Company's earnings per share calculation for the year ended December 31, 2005 as the impact would be anti-dilutive due to the loss from continuing operations for that year.

**13. Stock based compensation plans**

Alpine currently has one employee stock option incentive plan: the 1997 Stock Option Plan (the "1997 Plan"). The 1997 Plan has 1,500,000 shares of common stock reserved for issuance. There were 107,109 and 19,436 shares of common stock available under the 1997 Plan as of December 31, 2006 and 2005, respectively. Participation in the 1997 Plan is generally limited to key employees and consultants of Alpine and its subsidiaries. The 1997 Plan provides for the granting of incentive and non-qualified stock options and stock appreciation rights. The options granted under the 1997 Plan vest in equal annual installments over the three year period commencing on the first anniversary date of the grant or, if earlier, upon the occurrence of a change in control of the Company and options cannot be exercised after ten years from the date of grant. No options were granted under the 1997 Plan for the year ended December 31, 2006 and 2005.

The Company adopted the Stock Compensation Plan for Non-Employee Directors (the "Director Plan") in January 1999. Under the Director Plan, each non-employee director of the Company automatically receives 50% of the annual retainer in either restricted common stock or non-qualified stock options, as elected by the director. In addition, each non-employee director may also elect to receive all or a portion of the remaining amount of the annual retainer and any meeting fees in the form of restricted stock or stock options in lieu of cash payment. During 2006, 44,436 non-qualified stock options and 18,589 shares of restricted stock were granted to non-employee directors. All options and restricted stock granted during 2006 were issued at the fair market value of the Common Stock at the date of the grant. Each stock option granted under the Director Plan expires on the tenth anniversary of the

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Stock based compensation plans (Continued)**

date of the grant. Awards of restricted stock and stock options under the Director Plan vest upon the earliest of the following to occur: (i) the third anniversary of the date of the grant; (ii) a non-employee director's death; and (iii) a change of control of the Company. Any shares issued pursuant to the Director Plan will be issued from the Company's treasury stock.

Alpine sponsors a 1984 Restricted Stock Plan under which a maximum of 600,000 shares of Common Stock have been reserved for issuance. At December 31, 2006, there are 45,064 shares available for issuance. During the year ended December 31, 2006, the Executive Compensation and Organization Committee of the Board of Directors ("the Compensation Committee") granted no new shares under this plan. Shares of restricted common Stock granted under this Plan vest in equal installments over a three year period commencing with the first anniversary of grant.

Alpine sponsors The Alpine Group, Inc. Deferred Stock Account Plan, an unfunded deferred stock compensation plan whereby certain key management employee participants are permitted to (i) defer the receipt of all, or a portion, of their non-cash salary or bonus and shares of Common Stock issued upon stock option exercises, as defined by the plan and (ii) reinvest deemed cash dividends allocable to Common Stock credited to a participant's account under the plan into additional deferred Common Stock. The plan also provides for Company matching contributions of Common Stock of either 25% or 50%, depending upon period of deferral, applied to shares of Common Stock deferred therein. The compensation cost associated with the Company matching contributions is amortized over the period of the deferral in respect of which it may be earned. Shares deferred into the Deferred Stock Account Plan are held in irrevocable grantor trusts. On April 19, 2006, the Compensation Committee approved voluntary reductions in executive base compensation levels for calendar 2006 and awarded grants of 155,359 shares of restricted common stock from the Company's treasury stock to participating executives. All executives elected to defer the receipt of the shares under this plan. At December 31, 2006, 1,957,521 shares of Common Stock have been deferred and are included in the grantor trusts. These shares and the corresponding liability are classified as components of treasury stock and additional paid-in capital, respectively, in the consolidated balance sheets. The total unamortized deferred compensation was \$0.9 million and \$0.5 million as of December 31, 2006 and 2005, respectively.

The following table summarizes restricted stock activity for the twelve month periods ended December 31, 2006 and 2005:

	Deferred Stock Account Plan		Non-Employee Directors Plan		1984 Restricted Stock Plan	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested balance at December 31, 2004.....	262,191	0.86	163,609	0.88	26,004	1.03
Granted .....	—		25,327	1.95	17,500	2.01
Vested .....	(124,428)	0.86	(49,591)	0.87	(12,167)	0.96
Forfeited .....	—		—		(1,667)	0.76
Nonvested balance at December 31, 2005.....	137,763	0.86	139,345	1.08	29,670	1.65
Granted .....	155,359	3.40	18,589	2.82	—	
Vested .....	(124,429)	0.86	(78,410)	0.63	(10,501)	1.46
Forfeited .....	—		—		(19,169)	1.76
Nonvested balance at December 31, 2006.....	168,693	\$3.20	79,524	\$1.92	—	
Unrecognized Compensation Costs	\$340,258		\$72,862		—	
Weighted Average Period Remaining .....	2.5	Years	2.0	Years	—	

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Stock based compensation plans (Continued)**

Excluded from the table above are 563,590 and 490,909 shares as of December 31, 2006 and 2005, respectively, that represent future Company matching contributions being earned on account of shares deferred by participants in the Deferred Stock Account Plan. Under the plan, the number of matching shares contributed by the Company varies based upon the length of the deferral period(s) selected by plan participants and the contribution is earned upon expiration of the related deferral period(s). The amortization of the cost associated with matching contribution shares is, and has been, included in the compensation expense of the Company, all of which is included in selling, general and administrative expense in the statement of operations. There is approximately \$0.6 million of unamortized compensation expense related to such matching contribution shares as of December 31, 2006 that is expected to be recognized over a weighted average period of 3.5 years.

The following table summarizes stock option activity for the twelve months ended December 31, 2006 and 2005.

	Shares Outstanding	Weighted- Average Exercise Price	Weighted Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2004 .....	1,456,170	\$1.19	7.98	\$1,574,952
Exercised .....	(168,333)	0.76		
Canceled .....	(64,719)	3.68		
Granted .....	72,675	1.99		
Outstanding at December 31, 2005 .....	1,295,793	\$1.17	7.32	\$2,174,812
Exercised .....	(244,035)	0.80		
Canceled .....	(104,173)	1.82		
Granted .....	44,436	2.85		
Outstanding at December 31, 2006 .....	992,021	\$1.26	6.50	\$1,076,273
Options exercisable at December 31, 2006 .....	816,167	\$1.14	6.17	\$ 981,344

The weighted average grant-date fair value of options granted for the twelve month periods ended December 31, 2006 and 2005 was \$2.58 and \$1.86, respectively. The aggregate intrinsic value of options exercised for the twelve month period ended December 31, 2006 and 2005 was \$585,000 and \$292,000, respectively.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Stock based compensation plans (Continued)**

Information with respect to stock-based compensation plan stock options outstanding and exercisable at December 31, 2006 is as follows:

Range Of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Of Options Exercisable	Weighted Average Exercise Price	Weighted Average Exercise Price
\$0.450-\$0.650	180,040	6.20	\$ 0.6001	180,040	\$ 0.06001	\$ 0.06001
\$0.76	358,853	6.47	\$ 0.7600	358,853	\$ 0.7600	\$ 0.7600
\$0.875—\$2.700	396,538	6.74	\$ 1.3271	247,485	\$ 1.1689	\$ 1.1689
\$3.100—\$9.813	45,384	6.73	\$ 4.3109	18,583	\$ 5.9646	\$ 5.9646
\$10.438—\$17.938	11,206	2.56	\$13.3286	11,206	\$ 13.3286	\$ 13.3286
	<u>992,021</u>	6.50	\$ 1.2621	<u>816,167</u>	\$ 1.1398	\$ 1.1398

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R (revised 2004), “Share-Based Payment,” (“SFAS 123(R)”) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123(R) supersedes the Company’s previous accounting under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”) for periods beginning in fiscal 2006.

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006, the first day of the Company’s 2006 fiscal year. The Company’s financial statements as of and for the twelve months ended December 31, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company’s financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Total compensation expense related to all stock based compensation plans (including restricted stock) for the years ended December 31, 2006 and 2005, was \$0.5 and \$0.5 million, respectively. The incremental impact of adopting SFAS 123(R) included in the twelve month period ended December 31, 2006 was \$0.1 million.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company’s Statement of Operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”).

There were 244,035 and 168,333 options exercised during the twelve month periods ended December 31, 2006 and 2005, respectively. Cash received from option exercises under all share-based payment arrangements for the twelve month periods ended December 31, 2006 and 2005 was \$188,000 and \$14,000, respectively.

The fair value of each option award was calculated on the date of grant using the Black-Scholes option pricing model. This model requires the input of subjective assumptions that may have a significant impact on the fair value estimate. Expected volatility was based on historical volatility of the Company’s stock, and other factors. Expected dividends were based on historical dividend practices and no immediate plans to pay a dividend in respect of the Common Stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The risk-free rate for periods within the contractual life of the option were based on average U.S. Treasury rates in effect at the end of each quarter. The following assumptions were used for each respective period:

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Stock based compensation plans (Continued)**

	<u>Twelve months ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
Risk free interest rate	4.71%	4.35%
Expected life	2.0	2.0
Expected volatility	140%	160%
Expected dividend yield	0%	0%

**Pro forma Information for Periods Prior to the Adoption of FAS 123R**

Prior to the adoption of FAS No. 123(R), disclosures with respect to stock-based compensation awards were provided in accordance with FAS No. 123, as amended by FAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosures." Under these guidelines, compensation expense was recognized only in respect of stock options granted at exercise prices set below market value. Since all options granted by the Company have been set at exercise prices equal to the market value of the underlying common stock on the date of grant, no employee stock-based compensation expense with regards to employee stock options grants was recognizable under FAS 123(R) and, accordingly, none was reflected in the Company's results of operations for the year ended December 31, 2005.

The following is the proforma information for the year ended 2005:

	<u>Year Ended</u> <u>December 31,</u> <u>2005</u>
	(in thousands, except per share amounts)
Net income, as reported.....	\$4,573
Add stock-based employee compensation expense included in reported net income, net of tax effects of \$190.....	354
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects.	(521)
Pro forma net income .....	<u>4,406</u>
Preferred stock dividends.....	(445)
Proforma net income - applicable to common stock .....	<u>\$3,961</u>
Weighted average shares outstanding:	
Basic .....	<u>15,861</u>
Diluted .....	<u>15,861</u>
Net income per share:	
Basic—as reported.....	\$0.26
Basic—pro forma.....	\$0.25
Diluted—as reported.....	\$0.26
Diluted—pro forma.....	\$0.25

**14. Employee benefits**

In conjunction with the sale of DNE Systems, Inc in 2004, the Company entered into an agreement with a certain former employee that entitles the former employee to a benefit accrued under the former supplemental executive retirement plan ("SERP"), payable at normal retirement age (65). The employee does not accrue any additional benefits, except for interest, under the SERP and the Company has the right to pay the actuarial equivalent lump sum value of the SERP to the former employee at its election

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Employee benefits (Continued)**

with 30 days prior notice to the employee. The Company has recorded the present value of the SERP liability of \$0.4 million as an other long-term liability as of December 31, 2006 and 2005.

Prior to 2002, Alpine sponsored an unfunded SERP. During 2001, the Company terminated or froze SERP benefits for certain employees resulting in a curtailment loss of \$2.5 million and a settlement loss of \$2.5 million. The benefits were paid out in 2002 or deposited in Rabbi Trust accounts, effectively terminating Alpine's SERP. The amount remaining in the Rabbi Trust accounts, all of which is related to two current employees and included in other current assets, as of December 31, 2006, was \$0.9 million. There is an equal and offsetting liability included in accrued expenses as of December 31, 2006.

The Company currently does not provide for any postretirement health care benefits.

The Company established a defined benefit pension plan on January 1, 2003 covering substantially all Exeon bargaining unit individuals employed on an hourly-rate basis. Due to various restructuring and divestitures the covered participants declined significantly and a decision to terminate the plan was made during 2005, with a termination date of October 15, 2005. Final funding of the plan in the amount of \$180,000 was made as of December 2005. Historical benefit plan information is presented below:

	<b>Defined Benefit Pension Plan</b>
	<b>December 31, 2005</b>
<b>Change in benefit obligation:</b>	
Benefit obligation at beginning of year .....	\$ 267
Service cost.....	—
Interest cost.....	16
Actuarial loss.....	98
Benefits paid.....	(340)
Benefit obligation at end of year .....	\$ 41
<b>Change in plan assets:</b>	
Fair value of plan assets at beginning of year.....	\$ 144
Actual return on plan assets.....	(5)
Employer contribution.....	255
Benefits paid.....	(340)
Fair value of plan assets at end of year.....	\$ 54
Funded status .....	\$ 13
Unrecognized net (gain) loss .....	17
Net amount recognized.....	\$ 30
<b>Amounts recognized in the consolidated balance sheets consist of:</b>	
Accrued benefit liability .....	\$ 13
Accumulated other comprehensive income .....	17
Net amount recognized.....	\$ 30

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Employee benefits (Continued)**

The components of net periodic benefit cost of the defined benefit pension plan during the year ended December 31, 2005 are presented below:

	<b>Defined Benefit Pension Plan Year Ended December 31, 2005</b>
<b>Components of net periodic benefit cost:</b>	
Service cost.....	\$ —
Interest cost.....	16
Expected return on plan assets.....	(14)
Amortization of prior service cost .....	2
Curtailment (gain) loss.....	139
Net periodic benefit cost.....	\$143

The actuarial present value of the projected pension benefit obligation at December 31, 2005 was determined based upon the following assumptions:

	<b>Defined Benefit Pension Plan Year Ended December 31, 2005</b>
Discount rate.....	5.75%
Expected return on plan assets.....	8.0%
Increase in future compensation .....	n/a

Following the acquisition of Exeon in December 2002, Exeon established a defined contribution plan covering substantially all employees of Exeon and Alpine. The plan provides for limited matching of employee contributions. Company contributions to these plans for the years ended December 31, 2006 and 2005 were approximately \$0.2 and \$0.5, respectively.

In December 2005, the Compensation Committee approved the adoption of The Alpine Group, Inc. Deferred Cash Account Plan (the "Plan"), which provides senior executives of the Company and its subsidiaries designated by the Compensation Committee with the opportunity to defer receipt of and taxation upon all or a portion of such executives' cash compensation for a range of deferral or redeferral periods elected by each executive as set out in the Plan. Amounts deferred under the Plan remain assets of the Company subject to claims of its creditors and any investment gains or losses upon such deferred amounts are exclusively for the respective accounts of participating executives. There are no provisions in the Plan for any Company match or contribution to the Plan.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Modified “Dutch Auction” Tender Offer**

On March 1, 2006, Alpine commenced a modified “Dutch Auction” tender offer (the “Tender Offer”) to purchase up to a maximum of 6 million shares plus, at its discretion, an additional number (the “overallotment”) not to exceed 2% of its outstanding Common Stock at a price per share of not less than \$3.00 and not greater than \$3.50. On April 4, 2006, Alpine modified its offer to increase the maximum number of shares to be purchased to 6.5 million plus the overallotment and to extend to April 18, 2006 the Tender Offer expiration date. Following the expiration date, and pursuant to the terms and conditions of the Tender Offer, out of the 7,698,805 validly tendered shares of Common Stock, Alpine accepted and purchased a total of 6,684,670 shares at a purchase price of \$3.375 per share or approximately \$22.6 million. The shares purchased represented 37.3% of Alpine’s outstanding Common Stock and 24.7% of such outstanding Common Stock assuming conversion of all of Alpine’s outstanding Series A Preferred Stock.

**16. Derivative financial instruments and fair value information**

The Company to a certain extent uses forward fixed price contracts and derivative financial instruments to manage commodity price risks. The Company is exposed to credit risk in the event of nonperformance by counterparties for metal forward price contracts, and metals futures contracts but the Company does not anticipate nonperformance by any of these counter parties. The amount of such exposure is generally limited to the unrealized gains (losses) within the underlying contracts.

*Commodity price risk management*

The cost of copper, the Company's most significant raw material has been subject to significant volatility over the past several years.

In December 2004, the Company purchased approximately \$9 million of copper for use in the first quarter of 2005 and the Company entered into copper futures contracts to match the copper price to the consumption period. These contracts were also recorded at fair value at December 31, 2004 resulting in a charge to earnings of \$0.4 million. These contracts were subsequently liquidated in the first quarter of 2005 and a gain was recognized of approximately \$0.4 million.

Again, in December 2005, the Company purchased approximately \$3 million of copper for use in the first quarter of 2006 and the Company entered into copper futures contracts to match the copper price to the consumption period. These contracts were recorded at cost at December 31, 2005, which approximated fair value and therefore no adjustment to cost of sales was required. These contracts were liquidated in the first quarter of 2006.

During the fourth quarter 2006, the Company commenced purchasing copper rod for resale to SCL (see Note 1). At December 31, 2006 there was approximately \$30 million of copper rod inventory purchased for resale to SCL in early 2007. The Company entered into copper futures contracts to match that price to the sale period in which it is to be sold to SCL. Copper prices decreased between the time the copper was purchased and December 31, 2006 and therefore the Company recorded a \$1.6 million gain on the mark-to-market of the future contracts. This was credited to cost of sales during the fourth quarter of 2006. Since the inventory values related to these futures contracts decreased by a similar amount, the Company recorded a lower of cost or market adjustment to the inventory of \$1.6 million that was charged to cost of sales during the fourth quarter of 2006.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. Commitments and contingencies**

Total rent expense under cancelable and noncancelable operating leases was \$2.0 million and \$3.2 million during the years ended December 31, 2006 and 2005, respectively, of which approximately \$1.7 and \$2.6 million related to discontinued operations.

At December 31, 2006, future minimum lease payments under noncancelable operating leases are as follows:

<u>Year</u>	<u>(in thousands)</u>
2007.....	\$1,308
2008.....	879
2009.....	366
2010.....	199
2011.....	199
Thereafter .....	480

The Company continues to sublease a portion of their two regional distribution centers that remain from the former Exeon building wire discontinued operations. The Company received \$0.7 million and \$1.0 million of sublease income during 2006 and 2005, respectively. Below are the future lease commitments from the subleases related to these leases.

<u>Year</u>	<u>(in thousands)</u>
2007.....	\$295
2008.....	177
2009.....	44

Approximately 30% of the Company's total labor force at December 31, 2006 was covered by collective bargaining agreements. Contracts covering the Company's unionized work force are due to expire at various times in 2007. The Company considers relations with its employees to be satisfactory.

The Company is subject to lawsuits incidental to its business. In the opinion of management, based on its examination of such matters and discussions with counsel, the ultimate resolution of all pending or threatened litigation, claims and assessments will have no material effect upon Alpine's consolidated financial position, liquidity or results of operations.

Alpine's operations are subject to environmental laws and regulations in each of the jurisdictions in which it owns or operates facilities or as to certain former operations, for which it has assumed liabilities, governing, among other things, emissions into the air, discharges to water, the use, handling and disposal of hazardous substances and the investigation and remediations of soil and groundwater contamination both on-site at past and current facilities and at off-site disposal locations. Alpine, as to two sites, and Exeon, as to one site, are currently involved in environmental investigations which will likely result in certain remedial activities being required under the oversight of two state regulatory agencies. Alpine currently does not believe that any of the environmental matters for which it may be liable will have a material adverse effect upon its business, financial condition, liquidity or results of operations.

The Company accepts certain customer orders for future delivery at fixed prices. As copper is the most significant raw material, the Company enters into forward purchase fixed price commitments for copper to properly match its cost to the value of the copper to be billed to the customers. At December 31, 2006 the Company had no such fixed purchase price commitments with customers and therefore no related derivatives. At December 31, 2005, the Company had forward fixed price purchase commitments of 1.0 million copper pounds. In addition, at December 31, 2006, the Company had approximately \$21.2 million of copper futures contracts representing 7.4 million copper pounds outstanding as non-designated derivative instruments. These contracts were recorded at fair value at December 31, 2006. There were \$2.7 million of copper futures contracts representing 1.3 million copper pounds outstanding at December 31, 2005. See Note 16 for discussion of other derivatives utilized by the Company.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Related party transactions**

Alpine has made short-term advances to the United States subsidiary of SCL, secured by United States based inventory and accounts receivable, at an interest rate of LIBOR plus 1.4% per annum. As of December 31, 2005, \$1.4 million, of these advances was included as notes receivable from affiliate. As of December 31, 2006, all advances had been paid. In addition, as of December 31, 2006, Alpine had loaned \$3.3 million to SCL to augment its growth and working capital. This loan is subordinate to SCL's bank debt and bears interest at LIBOR plus 3.0% per annum which was 8.37% as of December 31, 2006. This loan was repaid in March 2007. Except for the foregoing advances, SCL's operations are self funded and financed by unaffiliated bank lenders on a non-recourse basis to Alpine.

SCL subleases approximately 25,000 square feet of warehouse space at the Company's McDonough, GA facility on a month-to-month basis that is cancelable by either party with 60 days notice. SCL paid the Company \$82,380 for this space during 2006.

In August 2006 Exeon and SCL entered into a supply agreement pursuant to which Exeon could elect to purchase copper rod for resale to SCL for use in SCL's manufacturing operations (see Note 2).

A former officer and current director of the Company receives an annual annuity of \$18,900 in accordance with a former employment agreement with the Company. The annuity is a 15 year annuity which commenced in 2000. The outstanding balance due as of December 31, 2006 was approximately \$129,000.

A former officer and current director of the Company receives an annual annuity of \$34,700 and a monthly annuity of \$7,378 in accordance with former employment agreements with the Company. The terms of the annuities are each 15 years and commenced in 2001 and 2002, respectively. The outstanding balances due as of December 31, 2006 were approximately \$220,000 and \$670,000, respectively.

At December 31, 2006 and 2005, Alpine has outstanding loans to certain officers totaling \$276,000 and \$346,000, respectively, relating to the tax implications associated with the exercise in prior years of stock options and restricted stock grants. The unpaid balance, which is added to accumulated deficit, bears interest at prime plus 0.5%. Such loans have been forgiven by the Company and approximately, \$70,000 per year is being amortized as loan forgiveness, which is included in selling, general and administrative expense.

On August 8, 2006, the Company agreed to reschedule payment of three installments due an executive on account of a non-competition agreement with the Company. The three installments were originally payable in the amount of \$50,000 on December 31, 2006, September 30, 2007 and December 31, 2007. The installments were discounted at the prime rate and \$48,460 was paid on August 10, 2006 and \$94,513 on January 10, 2007, which was included in accrued liabilities at December 31, 2006.

**19. Preferred stock**

Alpine has authorized 500,000 shares of preferred stock with a par value of \$1.00 per share. The preferred stock may be issued at the discretion of the Board of Directors in one or more series with differing terms, limitations and rights.

On June 23, 2003, Alpine completed a private placement of 8,287 shares of a new issue of Series A Cumulative Convertible Preferred Stock (the "Series A Preferred Stock") to its directors and certain officers for a purchase price of \$380 per share, or an aggregate of approximately \$3.1 million. Holders of the Series A Preferred Stock are entitled to receive, when, as and if declared by the board of directors out of funds legally available for payment, cash dividends at an annual rate of \$30.40 per share. The Series A Preferred Stock originally was convertible into Common Stock, at the option of the holder, at the rate of 691 shares of Common Stock per share of Series A Preferred. As a result of a special dividend declared by the Company (see Note 22), the conversion rate increased to 743.01. Since the market price of the Common Stock on the subscription date (June 23, 2003) was \$0.76 per share and the original conversion price was \$0.55 per share, a beneficial conversion feature of \$1.2 million was recorded as a reduction to the mandatorily redeemable series A cumulative preferred stock line of the balance sheet with the offset to capital in excess of par. The beneficial conversion feature

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. Preferred stock (Continued)**

was recorded as a dividend as of December 29, 2004 when the privately placed Series A Preferred Stock became convertible following the increase in authorized but unissued shares of Common Stock from 25 million to 50 million shares.

On November 10, 2003, the Company completed the sale of 9,977 shares of Series A Preferred Stock pursuant to a rights offering to holders of the Common Stock. Common stockholders were offered a right to purchase one share of Series A Preferred Stock at a price of \$380 per share for each 500 shares of Common Stock held on September 29, 2003. The terms of the Series A Preferred Stock are the same as that purchased by the officers and directors in the private placement discussed above. Total proceeds received from the sale were \$3.8 million. The recording of dividends, if any, on the Series A Preferred Stock will reduce the Company's earnings per share in the period recorded. Since the market price of the Common Stock on the date of issuance (November 10, 2003) was \$0.92 per share and the original conversion price was \$0.55 per share, a beneficial conversion feature of \$2.6 million was recorded. This was recorded as a dividend since the shares were immediately convertible, offset with a credit to capital in excess of par. The Company may cause conversion of the Series A Preferred Stock into Common Stock if the Common Stock is then listed on the New York Stock Exchange or the American Stock Exchange or is traded on the Nasdaq National Market System and the average closing price of a share of the Common Stock for any 20 consecutive trading days equals or exceeds 300% of the conversion price then in effect. The Series A Preferred Stock is subject to mandatory redemption by the Company ratably on the last day of each quarter during the three-year period commencing on December 31, 2009 at the liquidation value of \$380 per share, plus accrued and unpaid dividends. Additionally, if the Company experiences a change in control it will, subject to certain limitations, offer to redeem the Series A Preferred Stock at a cash price of \$380 per share plus (i) accrued and unpaid dividends and (ii) if the change of control occurs prior to December 31, 2007, all dividends that would be payable from the redemption date through December 31, 2007.

Dividends related to both the private placement and the rights offering have been paid on a quarterly basis since issuance.

There were 1,652 and 742 shares of Series A Preferred Stock converted into 1,227,448 and 551,309 shares of Common Stock during 2006 and 2005, respectively.

At December 31, 2006, 177 shares of 9% Cumulative Convertible Preferred Stock ("9% Preferred Stock") were outstanding. Each Share of the 9% Preferred Stock is convertible into 105  $\frac{1}{2}$  shares of Common Stock, subject to customary adjustments. Alpine may redeem the stock at any time, in whole or in part at a price equal to the liquidation value per share of \$1,000. The 9% Preferred Stock is senior to the Series A Preferred Stock.

**20. Stockholder rights agreement**

Under the Company's Stockholder Rights Plan, last amended in March 2003 ("the Plan"), a Preferred Share Purchase Right ("Right") is attached to each share of Common Stock pursuant to which the holder will, in certain takeover-related circumstances, become entitled to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock at a price of \$75.00, subject to adjustment, with each share having substantially the rights and preferences of 100 shares of Common Stock. The Rights will separate from the common shares after a person or entity or group of affiliated or associated persons (other than certain grandfathered persons) acquire beneficial ownership of 15% (or in the case of Steven S. Elbaum, 40%) or more of the outstanding common shares) or commence a tender offer that would result in a person or group acquiring, beneficial ownership of 15% or more of the outstanding common shares. Grants of stock options and restricted stock by the board of directors of the Company (and its committees) to its officers, will not by itself cause an officer to become an acquiring person. Also, in certain takeover-related circumstances, each Right (other than those held by an acquiring person) will be exercisable for shares of Common Stock or stock of the acquiring person having a market value of twice the exercise price. Once certain triggering events have occurred to cause the Rights to become exercisable, each Right may be exchanged by the Company for one share of Common Stock.

The Rights are redeemable at any time, prior to the time that a person becomes an acquiring person, by the Company before their expiration on February 17, 2009 at a redemption price of \$0.01 per Right. At December 31, 2006, 200,000 shares of Series A Junior Participating Preferred Stock were reserved for issuance under this Plan.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21. Quarterly financial information (unaudited)**

The Company's quarterly results of operations for the year ended December 31, 2006 and 2005 are as follows:

	2006				
	Quarter Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
	(in thousands, except per share data)				
Net sales .....	\$ 4,774	\$ 5,783	\$8,313	\$4,232	\$23,102
Gross profit .....	150	(160)	127	98	215
Income (loss) from continuing operations.....	(600)	648	832	(143)	737
Income (loss) from discontinued operations (including gain on sale of Exeon of \$15,383, net of tax) .....	20,827	(519)	(128)	(381)	19,799
Net income (loss) .....	20,227	129	704	(524)	20,536
Net income (loss) per share of common stock – basic (a)					
From continuing operations, net of preferred dividends .....	(0.04)	0.04	0.06	(0.02)	0.03
From discontinued operations .....	1.27	(0.04)	(0.01)	(0.04)	1.55
Net income (loss) .....	1.23	—	0.05	(0.06)	1.58
Net income (loss) per share of common stock – fully diluted (a)					
From continuing operations .....	(0.04)	0.03	0.04	(0.02)	0.03
From discontinued operations .....	1.27	(0.02)	(0.01)	(0.04)	0.86
Net income (loss) .....	1.23	0.01	0.03	(0.06)	0.89
	2005				
	Quarter Ended				Year Ended
	March 31	June 30	September 30	December 31	December 31
	(in thousands, except per share data)				
Net sales .....	\$3,718	\$3,032	\$3,356	\$3,204	\$13,310
Gross profit .....	92	168	94	179	533
Income (loss) from continuing operations.....	(617)	(939)	(727)	390	(1,893)
Income (loss) from discontinued operations .....	(2,643)	(425)	1,513	8,021	6,466
Net income (loss) .....	(3,260)	(1,364)	786	8,411	4,573
Net income (loss) per share of common stock – basic (a)					
From continuing operations, net of preferred dividends .....	(0.05)	(0.07)	(0.05)	0.02	(0.15)
From discontinued operations .....	(0.17)	(0.02)	0.09	0.50	0.41
Net income (loss) .....	(0.22)	(0.09)	0.04	0.52	0.26
Net income (loss) per share of common stock – diluted (a)					
From continuing operations .....	(0.05)	(0.07)	(0.05)	0.02	(0.15)
From discontinued operations .....	(0.17)	(0.02)	0.09	0.29	0.41
Net income (loss) .....	(0.22)	(0.09)	0.04	0.31	0.26

(a) Earnings per share for the quarters are computed independently and may not equal the earnings per share computed for the total year.

**THE ALPINE GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**22. Subsequent Events**

**SCL Financing**

On February 27, 2007, Superior Cables Ltd., Alpine's Israeli affiliate ("SCL"), announced a public offering of Units of its securities consisting of newly issued convertible and non-convertible bonds, warrants to purchase additional non-convertible bonds through three months following the offering date, and warrants to purchase common stock of SCL through March 2011. The Units offering was fully subscribed and consummated on March 18, 2007. Assuming full exercise of the warrants, gross proceeds from the Units offering will total approximately \$44.0 million. Contemporaneously with the Units offering, SCL announced an \$8.0 million rights offering to its existing common stockholders. The rights offering was fully subscribed and consummated on March 22, 2007. Alpine participated pro rata in the rights offering and purchased 14,668,519 SCL shares for an aggregate purchase price of \$4.0 million. The purchase price was paid by Alpine from proceeds of the repayment of working capital loans previously advanced by it to SCL in the aggregate principal amount of \$3.3 million, with the remainder of the purchase price being funded out of available cash.

**Investment in Wolverine Tube, Inc.**

On February 16, 2007, Alpine and a co-investor purchased \$10 million and \$40 million, respectively, of newly issued shares of Series A 8% Convertible Preferred Stock (the "Wolverine Preferred Stock") of Wolverine Tube, Inc. ("Wolverine"), and on February 17, 2007, representatives of Alpine and an unrelated co-investor joined Wolverine's board of directors, constituting a majority thereof. Additionally, on February 16, 2007, Alpine and Wolverine entered into an agreement pursuant to which Alpine will provide certain management and other services to Wolverine for an initial period of two years in consideration of an annual fee of \$1.3 million and reimbursement of its reasonable and customary expenses. Dividends on Wolverine Preferred Stock are payable quarterly at a rate of 8%. Wolverine is entitled to defer dividends in certain circumstances at a higher dividend rate. The Wolverine Preferred Stock will vote with the common stock on an as-converted basis on all matters. The security is convertible into shares of Wolverine common stock and results in an ownership by Alpine in Wolverine of 15%. Wolverine manufactures copper and copper alloy tubular products.

On March 29, 2007, the board of directors of Wolverine granted Alpine an option (the "Option") under the Wolverine Tube, Inc. 2007 Non-Qualified Stock Option Plan to purchase 4,399,059 shares of common stock of Wolverine, or 6% of the outstanding shares of Wolverine on a fully diluted basis, at the following prices: \$1.10 per share as to a tranche of 40% of the Option shares; \$1.40 per share as to a tranche of 30% of the Option shares; and \$2.20 per share as to a tranche of 30% of the Option shares. The Option vests on a pro rata basis among the three tranches listed above in five equal successive annual installments of 20%, commencing on March 29, 2008. The term of the Option expires on, and is exercisable by Alpine as to vested Option shares until, March 29, 2017.

**Purchase of Posterloid Corporation**

On February 23, 2007, Alpine acquired Posterloid Corporation ("Posterloid") for \$2.9 million. Posterloid is a designer and manufacturer of menu boards and signage for the food service industry and financial institutions.. Alpine has guaranteed payment of a contingent earn out of up to a maximum of \$0.5 million based on achievement of certain performance levels over a three year period.