

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 000-00255

GRAYBAR ELECTRIC COMPANY, INC.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

13-0794380

(I.R.S. Employer Identification No.)

34 North Meramec Avenue, St. Louis, Missouri

(Address of principal executive offices)

63105

(Zip Code)

(314) 573 - 9200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ☐ NO ☒

Common Stock Outstanding at July 15, 2018: 19,472,154

(Number of Shares)

Graybar Electric Company, Inc. and Subsidiaries
Quarterly Report on Form 10-Q
For the Period Ended June 30, 2018
(Unaudited)

Table of Contents

PART I. FINANCIAL INFORMATION	Page
Item 1. Financial Statements	
<u>Condensed Consolidated Statements of Income</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>24</u>
Item 4. <u>Controls and Procedures</u>	<u>24</u>
PART II. OTHER INFORMATION	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>25</u>
Item 6. <u>Exhibits</u>	<u>26</u>
<u>Signatures</u>	<u>27</u>

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Graybar Electric Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited)			
	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(Stated in thousands, except per share data)</i>	2018	2017	2018	2017
Gross Sales	\$ 1,840,417	\$ 1,720,842	\$ 3,485,393	\$ 3,258,711
Cash discounts	(8,085)	(7,962)	(15,409)	(15,260)
Net Sales	1,832,332	1,712,880	3,469,984	3,243,451
Cost of merchandise sold	(1,481,176)	(1,389,987)	(2,807,409)	(2,620,729)
Gross Margin	351,156	322,893	662,575	622,722
Selling, general and administrative expenses	(270,768)	(252,107)	(534,129)	(505,102)
Depreciation and amortization	(12,358)	(12,144)	(24,415)	(24,020)
Other income, net	652	3,521	1,416	4,129
Income from Operations	68,682	62,163	105,447	97,729
Non-operating expenses	(7,527)	(6,299)	(15,013)	(12,146)
Income before Provision for Income Taxes	61,155	55,864	90,434	85,583
Provision for income taxes	(16,574)	(22,463)	(24,689)	(34,459)
Net Income	44,581	33,401	65,745	51,124
Less: Net income attributable to noncontrolling interests	(89)	(67)	(160)	(109)
Net Income attributable to Graybar Electric Company, Inc.	\$ 44,492	\$ 33,334	\$ 65,585	\$ 51,015
Net Income per share of Common Stock^(A)	\$ 2.28	\$ 1.72	\$ 3.36	\$ 2.63
Cash Dividends per share of Common Stock	\$ 0.30	\$ 0.30	\$ 0.60	\$ 0.60
Average Common Shares Outstanding^(A)	19,501	19,406	19,516	19,394

^(A)Adjusted for the declaration of a 10% stock dividend in 2017, shares related to which were issued in February 2018. Prior to the adjustment, the average common shares outstanding were 17,642 and 17,631 for the three and six months ended June 30, 2017, respectively.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Graybar Electric Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited)			
	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(Stated in thousands)</i>	2018	2017	2018	2017
Net Income	\$ 44,581	\$ 33,401	\$ 65,745	\$ 51,124
Other Comprehensive Income				
Foreign currency translation	(1,737)	2,277	(4,292)	2,934
Pension and postretirement benefits liability adjustment (net of tax of \$(1,630), \$(2,019), \$(3,310), and \$(3,993), respectively)	4,699	3,171	9,544	6,272
Total Other Comprehensive Income	2,962	5,448	5,252	9,206
Comprehensive Income	\$ 47,543	\$ 38,849	\$ 70,997	\$ 60,330
Less: comprehensive income attributable to noncontrolling interests, net of tax	27	140	19	248
Comprehensive Income attributable to Graybar Electric Company, Inc.	\$ 47,516	\$ 38,709	\$ 70,978	\$ 60,082

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Graybar Electric Company, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
<i>(Stated in thousands, except share and per share data)</i>		
ASSETS	(Unaudited)	
Current Assets		
Cash and cash equivalents	\$ 47,084	\$ 42,757
Trade receivables (less allowances of \$6,118 and \$5,989, respectively)	1,149,519	1,061,590
Merchandise inventory	619,302	579,350
Other current assets	26,530	34,227
Total Current Assets	1,842,435	1,717,924
Property, at cost		
Land	79,586	79,787
Buildings	479,814	470,784
Furniture and fixtures	306,253	300,705
Software	87,313	87,313
Capital leases	26,636	25,610
Total Property, at cost	979,602	964,199
Less – accumulated depreciation and amortization	(557,356)	(539,275)
Net Property	422,246	424,924
Other Non-current Assets	122,341	118,509
Total Assets	\$ 2,387,022	\$ 2,261,357
LIABILITIES		
Current Liabilities		
Short-term borrowings	\$ 230,000	\$ 169,643
Current portion of long-term debt	3,424	2,052
Trade accounts payable	893,987	835,931
Accrued payroll and benefit costs	75,809	119,349
Other accrued taxes	21,185	17,228
Other current liabilities	76,954	78,225
Total Current Liabilities	1,301,359	1,222,428
Postretirement Benefits Liability	71,218	70,747
Pension Liability	159,599	169,225
Long-term Debt	8,812	7,048
Other Non-current Liabilities	21,237	30,361
Total Liabilities	1,562,225	1,499,809
SHAREHOLDERS' EQUITY		
	Shares at	
Capital Stock	June 30, 2018	December 31, 2017
Common, stated value \$20.00 per share		
Authorized	50,000,000	50,000,000
Issued to voting trustees	16,402,110	15,912,467
Issued to shareholders	3,608,067	3,496,114
In treasury, at cost	(481,363)	(24,243)
Outstanding Common Stock	19,528,814	19,384,338
Advance Payments on Subscriptions to Common Stock	542	—
Retained Earnings	674,562	619,916
Accumulated Other Comprehensive Loss	(244,761)	(250,154)
Total Graybar Electric Company, Inc. Shareholders' Equity	820,920	757,449
Noncontrolling Interests	3,877	4,099
Total Shareholders' Equity	824,797	761,548
Total Liabilities and Shareholders' Equity	\$ 2,387,022	\$ 2,261,357

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Graybar Electric Company, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited)	
	Six Months Ended June 30,	
<i>(Stated in thousands)</i>	2018	2017
Cash Flows from Operations		
Net Income	\$ 65,745	\$ 51,124
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	24,415	24,020
Deferred income taxes	(1,834)	(2,343)
Net gains on disposal of property	(97)	(193)
Net income attributable to noncontrolling interests	(160)	(109)
Changes in assets and liabilities:		
Trade receivables	(87,929)	(69,899)
Merchandise inventory	(43,260)	(68,812)
Other current assets	7,697	(1,488)
Other non-current assets	(8,826)	(4,987)
Trade accounts payable	58,056	79,553
Accrued payroll and benefit costs	(43,540)	(51,138)
Other current liabilities	(866)	12,021
Other non-current liabilities	5,110	(10,809)
Total adjustments to net income	(91,234)	(94,184)
Net cash used by operations	(25,489)	(43,060)
Cash Flows from Investing Activities		
Proceeds from disposal of property	336	1,675
Capital expenditures for property	(19,348)	(17,668)
Net cash used by investing activities	(19,012)	(15,993)
Cash Flows from Financing Activities		
Net increase in short-term borrowings	60,357	67,697
Principal payments under capital leases	(2,983)	(2,754)
Sale of common stock	12,574	12,272
Purchases of common stock	(9,142)	(6,613)
Purchases of noncontrolling interests' common stock	(241)	(359)
Dividends paid	(11,737)	(10,624)
Net cash provided by financing activities	48,828	59,619
Net Increase in Cash	4,327	566
Cash, Beginning of Year	42,757	43,339
Cash, End of Period	\$ 47,084	\$ 43,905
Non-cash Investing and Financing Activities		
Acquisitions of equipment under capital leases	\$ 1,073	\$ 351
Acquisition of software and maintenance under financing arrangement	\$ 5,046	\$ —

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Graybar Electric Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, stated in thousands)

Graybar Electric Company, Inc. Shareholders' Equity						
	Common Stock	Common Stock Subscribed, Unissued	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity
December 31, 2016	\$ 348,771	\$ —	\$ 575,380	\$ (196,600)	\$ 3,338	\$ 730,889
Net income			51,015		109	51,124
Other comprehensive income				9,067	139	9,206
Stock issued	11,755					11,755
Stock purchased	(6,613)				(359)	(6,972)
Advance payments		517				517
Dividends declared			(10,624)			(10,624)
June 30, 2017	\$ 353,913	\$ 517	\$ 615,771	\$ (187,533)	\$ 3,227	\$ 785,895

Graybar Electric Company, Inc. Shareholders' Equity						
	Common Stock	Common Stock Subscribed, Unissued	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity
December 31, 2017	\$ 387,687	\$ —	\$ 619,916	\$ (250,154)	\$ 4,099	\$ 761,548
Net income			65,585		160	65,745
Other comprehensive income (loss)				5,393	(141)	5,252
Adoption of ASC 606, net of tax			798			798
Stock issued	12,032					12,032
Stock purchased	(9,142)				(241)	(9,383)
Advance payments		542				542
Dividends declared			(11,737)			(11,737)
June 30, 2018	\$ 390,577	\$ 542	\$ 674,562	\$ (244,761)	\$ 3,877	\$ 824,797

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Graybar Electric Company, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Stated in thousands, except share and per share data)
(Unaudited)

1. DESCRIPTION OF THE BUSINESS

Graybar Electric Company, Inc. ("Graybar", "Company", "we", "our", or "us") is a New York corporation, incorporated in 1925. We are engaged in the distribution of electrical and communications and data networking products and are a provider of related supply chain management and logistics services. We primarily serve customers in the construction, industrial & utility, and commercial, institutional and government ("CIG") vertical markets, with products and services that support new construction, infrastructure updates, building renovation, facility maintenance, repair and operations ("MRO"), and original equipment manufacturers ("OEM"). We purchase all of the products we sell from others, and we neither manufacture nor contract to manufacture any products we sell. Our business activity is primarily based in the United States ("U.S."). We also have subsidiary operations with distribution facilities in Canada and Puerto Rico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our accounting policies conform to generally accepted accounting principles in the U.S. ("GAAP") and are applied on a consistent basis among all years presented. Significant accounting policies are described below.

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Graybar pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "Commission") applicable to interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that our disclosures are adequate to make the information presented not misleading. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect reported amounts. Our condensed consolidated financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2017, included in our latest Annual Report on Form 10-K.

In the opinion of management, this quarterly report includes all adjustments, consisting of normal recurring accruals and adjustments, necessary for the fair presentation of the financial statements presented. Results for interim periods are not necessarily indicative of results to be expected for the full year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Graybar and its subsidiary companies. All material intercompany balances and transactions have been eliminated. The ownership interests that are held by owners other than the Company in subsidiaries consolidated by the Company are accounted for and reported as noncontrolling interests.

Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Reclassifications

Certain reclassifications have been made to prior years' financial information to conform to the December 31, 2017 presentation.

Subsequent Events

We have evaluated subsequent events through the time of the filing of this Quarterly Report on Form 10-Q with the Commission. No material subsequent events have occurred since June 30, 2018 that require recognition or disclosure in these financial statements.

Revenue Recognition

Sales revenue is recognized when control of the promised good or service is transferred to the customer. Sometimes product is purchased from the manufacturer and drop-shipped to the customer. We generally take control of the goods when shipped by the manufacturer and then recognize revenue when control of the product transfers to the customer. Revenues recognized are primarily for product sales, but may also include freight and handling charges. Our standard shipping terms are FOB shipping point, under which control passes to the customer at the time of shipment. We also earn revenue for professional services, general contracting services, and storage services. Service revenue represented less than 1% of gross sales for the three and six months ended June 30, 2018. Revenue is reported net of all taxes assessed by governmental authorities as a result of revenue-producing transactions, primarily sales tax.

Outgoing Freight Expenses

We record certain outgoing freight expenses as a component of selling, general and administrative expenses.

Cash and Cash Equivalents

We account for cash on hand, deposits in banks, and other short-term, highly liquid investments with an original maturity of three months or less as cash and cash equivalents.

Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our customers, and a significant portion of our trade receivables is secured by mechanic's lien or payment bond rights. We maintain allowances to reflect the expected uncollectability of trade receivables based on past collection history and specific risks identified in the receivables portfolio. Although actual credit losses have historically been within management's expectations, additional allowances may be required if the financial condition of our customers were to deteriorate.

Merchandise Inventory

Our inventory is stated at the lower of cost (generally determined using the last-in, first-out ("LIFO") cost method) or market. LIFO accounting is a method of accounting that, compared with other inventory accounting methods, generally provides better matching of current costs with current sales.

We make provisions for obsolete or excess inventories as necessary to reflect reductions in inventory value.

Vendor Allowances

Our agreements with many of our suppliers provide for us to earn volume incentives based on purchases during the agreement period. Based on the provisions of our vendor agreements, we develop vendor accrual rates by estimating the point at which we will have completed our performance under the agreement and the deferred amounts will be earned. We perform analyses and review historical trends to ensure the deferred amounts earned are appropriately recorded. Certain vendor agreements contain purchase volume incentives that provide for increased funding when graduated purchase volumes are met. Amounts accrued throughout the year are based on estimates of future activity levels, and could be materially impacted if actual purchase volumes differ. Changes in the estimated amount of incentives are treated as changes in estimate and are recognized in earnings in the period in which the change in estimate occurs. In the event that the operating performance of our suppliers were to decline, however, there can be no assurance that amounts earned would be paid or that the volume incentives would continue to be included in future agreements.

Property and Depreciation

Property, plant and equipment are recorded at cost. Depreciation is expensed on a straight-line basis over the estimated useful lives of the related assets. Interest costs incurred to finance expenditures for major long-term construction projects are capitalized as part of the asset's historical cost and included in property, plant and equipment, then depreciated over the useful life of the asset. Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvement, whichever is shorter. Expenditures for maintenance and repairs are charged to expense when incurred, while the costs of significant improvements, which extend the useful life of the underlying asset, are capitalized.

Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk consist primarily of trade receivables. We perform ongoing credit evaluations of our customers, and a significant portion of our trade receivables may be protected by mechanic's lien or payment bond rights. We maintain allowances for potential credit losses, and such losses historically have been within management's expectations.

Fair Value

We endeavor to utilize the best available information in measuring fair value. GAAP has established a fair value hierarchy, which prioritizes the inputs used in measuring fair value. The tiers in the hierarchy include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own data inputs and assumptions. We have used fair value measurements to value our pension plan assets.

Foreign Currency Exchange Rate

The functional currency for our Canadian subsidiary is the Canadian dollar. Accordingly, its balance sheet amounts are translated at the exchange rates in effect at the end of each reporting period and its statements of income amounts are translated at the average rates of exchange prevailing during the current period. Currency translation adjustments are included in accumulated other comprehensive loss.

Goodwill

Our goodwill is not amortized, but rather tested annually for impairment. Goodwill is reviewed annually in the fourth quarter and/or when circumstances or other events might indicate that impairment may have occurred. We first perform a qualitative assessment of goodwill impairment. The qualitative assessment considers several factors including the excess fair value over carrying value as of the last quantitative impairment test, the length of time since the last fair value measurement, the current carrying value, market conditions, actual performance compared to forecasted performance, and the current business outlook. If the qualitative assessment indicates that it is more likely than not that goodwill is impaired, the reporting unit is then quantitatively tested for impairment. If a quantitative assessment is required, the fair value is determined using a variety of assumptions including estimated future cash flows of the reporting unit and applicable discount rates.

Definite Lived Intangible Assets

The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed, either on a straight-line or accelerated basis over the estimated periods benefited. Customer relationships, trade names and other non-contractual intangible assets with determinable lives are amortized over periods generally ranging from 3 to 20 years. Intangible assets are tested for impairment if events or circumstances occur indicating that the respective asset might be impaired.

Income Taxes

We recognize deferred tax assets and liabilities to reflect the future tax consequences of events that have been recognized in the financial statements or tax returns. Uncertainty exists regarding tax positions taken in previously filed tax returns still subject to examination and positions expected to be taken in future returns. A deferred tax asset or liability results from the temporary difference between an item's carrying value as reflected in the financial statements and its tax basis, and is calculated using enacted applicable tax rates. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, a valuation allowance is established. Changes in the valuation

allowance, when recorded, are included in the provision for income taxes in the condensed consolidated financial statements. We classify interest expense and penalties as part of our provision for income taxes based upon applicable federal and state interest/underpayment percentages.

Other Postretirement Benefits

We account for postretirement benefits other than pensions by accruing the costs of benefits to be provided over the eligible employees' periods of active service. These costs are determined on an actuarial basis. Our condensed consolidated balance sheets reflect the funded status of postretirement benefits.

Pension Plan

We sponsor a noncontributory defined benefit pension plan accounted for by accruing the cost to provide the benefits over the eligible employees' periods of active service. These costs are determined on an actuarial basis. Our condensed consolidated balance sheets reflect the funded status of the defined benefit pension plan.

Non-Operating Expenses

Non-operating expenses are comprised of interest expense, net and non-service cost components of the net periodic benefit cost for the pension and other postretirement benefit plans. The non-service cost components include interest cost, expected return on plan assets, amortization of net actuarial gains/losses, and amortization of prior service costs/gains.

New Accounting Standards

No new accounting standards that were issued or became effective during 2018 have had or are expected to have a material impact on our condensed consolidated financial statements except those noted below:

We adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU" or "Update") 2017-07, "Compensation - Retirement Benefits (Topic 715)" ("ASU 2017-07") on January 1, 2018 using the retrospective transition method. The updates to the standard require us to report the service cost component in the same line as other compensation costs arising from services rendered by employees during the reporting period. The other components of net benefit costs are presented in the income statement separately from the service cost and outside of a subtotal of income from operations. The impact to the three and six months ended June 30, 2017 operating results within the condensed consolidated statements of income as a result of adopting ASU 2017-07 is presented in the tables below:

Condensed Consolidated Statements of Income

Three Months Ended June 30, 2017			
<i>(Stated in thousands)</i>	As Reported	Reclassification	As Adjusted
Selling, general and administrative expenses	\$ 257,338	\$ (5,231)	\$ 252,107
Non-operating expenses	1,068	5,231	6,299
Six Months Ended June 30, 2017			
<i>(Stated in thousands)</i>	As Reported	Reclassification	As Adjusted
Selling, general and administrative expenses	\$ 515,383	\$ (10,281)	\$ 505,102
Non-operating expenses	1,865	10,281	12,146

On January 1, 2018, we adopted Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers." See Note 3, "Revenue", for further information.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The core principle of Topic 842 requires that a lessee should recognize the assets and liabilities on the balance sheet and disclose key information about leasing arrangements. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The guidance is required to be adopted at the earliest period presented using a modified retrospective approach. Although we anticipate the adoption of ASU 2016-02 will have a material impact on our consolidated balance sheets, we do not expect the adoption to have a material impact on our consolidated statements of

income. We are continuing to assess the potential impacts of ASU 2016-02 and currently expect the most significant impact will be the recognition of right-of-use (“ROU”) assets and lease liabilities for operating leases. We expect our accounting for capital leases to remain substantially unchanged.

3. REVENUE

On January 1, 2018, we adopted ASC Topic 606, “Revenue from Contracts with Customers” using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC Topic 605.

We recorded an increase to opening retained earnings of \$798 (net of tax of \$276) as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact primarily related to the recognition of bill and hold transactions that were deferred under ASC Topic 605. The impact to revenue as a result of applying ASC Topic 606 for the three and six months ended June 30, 2018 was a decrease of \$2,008 and \$1,697, respectively.

In accordance with the new revenue standard requirement, the disclosure impact of adoption on our condensed consolidated statements of income for the three and six months ended June 30, 2018 and the condensed consolidated balance sheet as of June 30, 2018 was as follows:

Condensed Consolidated Statements of Income

Three Months Ended June 30, 2018			
<i>(Stated in thousands)</i>	As Reported	Balance without Adoption	Effect of Change
Net sales	\$ 1,832,332	\$ 1,834,340	\$ (2,008)
Cost of merchandise sold	1,481,176	1,483,148	(1,972)
Six Months Ended June 30, 2018			
<i>(Stated in thousands)</i>	As Reported	Balance without Adoption	Effect of Change
Net sales	\$ 3,469,984	\$ 3,471,681	\$ (1,697)
Cost of merchandise sold	2,807,409	2,809,031	(1,622)

Condensed Consolidated Balance Sheet

June 30, 2018			
<i>(Stated in thousands)</i>	As Reported	Balance without Adoption	Effect of Change
Merchandise inventory	\$ 619,302	\$ 627,141	\$ (7,839)
Other current assets	26,530	26,806	(276)
Other non-current liabilities	21,237	30,075	(8,838)
Retained earnings	674,562	673,764	798

The following table summarizes the percentages of our net sales attributable to each of our vertical markets for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Construction	59.2%	58.6%	58.9%	58.4%
CIG	21.8	21.8	22.0	21.9
Industrial & Utility	19.0	19.6	19.1	19.7
Total net sales	100.0%	100.0%	100.0%	100.0%

We had no material contract assets, contract liabilities, or deferred contract costs recorded on the condensed consolidated balance sheet as of June 30, 2018. In addition, for the three and six months ended June 30, 2018, revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period is not material.

Revenue expected to be recognized in any future year related to remaining performance obligations is not material. As permitted in ASC Topic 606, we have elected to omit disclosure related to performance obligations for revenue pertaining to contracts that have an original expected duration of one year or less, to contracts where revenue is recognized as invoiced and to contracts with variable consideration related to wholly unsatisfied performance obligations,

4. INCOME TAXES

The provision for income taxes includes effects from the Tax Cuts and Jobs Act ("TCJA") for changes that became effective January 1, 2018. We have incorporated provisional estimates for these new TCJA provisions as part of our forecasted annual effective tax rate. For the three- and six-month periods ended June 30, 2018, we have not recorded any adjusted tax impacts with respect to provisional amounts previously recorded at December 31, 2017 for deferred tax balances and the one-time transition tax. We are still refining our calculations and interpreting recent guidance on both the federal and state level which could change these provisional tax amounts. No material changes are anticipated.

We determine our deferred tax assets and liabilities based upon the difference between the financial statement and tax bases of our assets and liabilities, calculated using enacted applicable tax rates. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. Changes in the valuation allowance, when recorded, are included in the provision for income taxes in the condensed consolidated financial statements.

Our unrecognized tax benefits of \$2,545 and \$2,318 at June 30, 2018 and December 31, 2017, respectively, are uncertain tax positions that would impact our effective tax rate if recognized. We are periodically engaged in tax return examinations, reviews of statute of limitations periods, and settlements surrounding income taxes. We do not anticipate a material change in unrecognized tax benefits during the next twelve months.

We classify interest expense and penalties as part of our provision for income taxes based upon applicable federal and state interest/underpayment percentages. We have accrued \$1,062 and \$983 in interest and penalties at June 30, 2018 and December 31, 2017, respectively. Interest was computed on the difference between the provision for income taxes recognized in accordance with GAAP and the amount of benefit previously taken or expected to be taken in our federal, state, and local income tax returns.

Our federal income tax returns for the tax years 2014 and forward are available for examination by the United States Internal Revenue Service ("IRS"). The statute of limitations for the 2014 federal return will expire on September 15, 2018, unless extended by consent. Our state income tax returns for 2013 through 2017 remain subject to examination by various state authorities with the latest period closing on December 31, 2022. We have not extended the statutes of limitations in any state jurisdictions with respect to years prior to 2013.

5. CAPITAL STOCK

Our common stock is 100% owned by active and retired employees, and there is no public trading market for our common stock. Since 1928, substantially all of the issued and outstanding shares of common stock have been held of record by voting trustees under successive voting trust agreements. Under applicable New York law, a voting trust may not have a term greater than ten years. Accordingly, a new Voting Trust Agreement was established effective March 3, 2017, which expires by its terms on March 1, 2027. At June 30, 2018, approximately 82% of the total shares of common stock was held in the voting trust. The participation of shareholders in the voting trust is voluntary at the time the voting trust is created, but is irrevocable during its term. Shareholders who elect not to participate in the voting trust hold their common stock as shareholders of record. Shareholders may elect to participate in the voting trust at any time during the term of the voting trust.

No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. Additionally, before the shareholder action described in the next sentence became effective, a shareholder was entitled to any cash dividends accrued for the quarter in which the purchase offer is made, adjusted pro rata for the number of days such shares were held prior to the dividend record date. On June 8, 2017, the shareholders voted to remove this adjustment for accruing dividends on the common stock. We also have the option to purchase at the issue price the common shares of any shareholder who ceases to be an employee for any reason other than death or "retirement" (as

defined in our amended restated certificate of incorporation), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

Cash dividends declared were \$5,863 and \$5,318 for the three months ended June 30, 2018 and 2017, respectively. Cash dividends declared were \$11,737 and \$10,624 for the six months ended June 30, 2018 and 2017, respectively.

We also have authorized 10,000,000 shares of Delegated Authority Preferred Stock ("preferred stock"), par value one cent (\$0.01). The preferred stock may be issued in one or more series, with the designations, relative rights, preferences, and limitations of shares of each such series being fixed by a resolution of our Board of Directors. There were no shares of preferred stock outstanding at June 30, 2018 and December 31, 2017.

6. DEBT

Revolving Credit Facility

At June 30, 2018 and December 31, 2017, we, along with Graybar Canada Limited, our Canadian operating subsidiary ("Graybar Canada"), had an unsecured, five-year, \$550,000 revolving credit agreement maturing in June 2019 with Bank of America, N.A. and the other lenders named therein (the "Credit Agreement"), which includes a combined letter of credit sub-facility of up to \$50,000, a U.S. swing line loan facility of up to \$50,000, and a Canadian swing line loan facility of up to \$20,000. The Credit Agreement includes a \$100,000 sublimit (in U.S. or Canadian dollars) for borrowings by Graybar Canada and contains an accordion feature, which allows us to request increases to the aggregate borrowing commitments of up to \$300,000.

We were in compliance with all covenants under the Credit Agreement as of June 30, 2018 and December 31, 2017.

There were \$230,000 and \$169,643 in short-term borrowings outstanding under the Credit Agreement at June 30, 2018 and December 31, 2017, respectively.

Short-term borrowings outstanding during the six months ended June 30, 2018 and 2017 ranged from a minimum of \$140,000 and \$112,292 to a maximum of \$242,000 and \$229,782, respectively.

We had total letters of credit of \$5,371 outstanding, none of which were issued under the Credit Agreement at both June 30, 2018 and December 31, 2017. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

At June 30, 2018, we had unused lines of credit under the Credit Agreement amounting to \$320,000 available, compared to \$380,357 at December 31, 2017. These lines are available to meet our short-term cash requirements and are subject to annual fees of up to 40 basis points (0.40%).

Interest expense, net was \$1,699 and \$1,068 for the three months ended June 30, 2018 and 2017, respectively. Interest expense, net was \$3,110 and \$1,865 for the six months ended June 30, 2018 and 2017, respectively.

Private Placement Shelf Agreements

We have an uncommitted \$100,000 private placement shelf agreement with PGIM, Inc. (the "Prudential Shelf Agreement"), which is expected to allow us to issue senior promissory notes to affiliates of PGIM, Inc. at fixed rate terms to be agreed upon at the time of any issuance during a three-year issuance period ending in August 2020. No notes had been issued under the Prudential Shelf Agreement as of June 30, 2018 and December 31, 2017.

We also have an uncommitted \$100,000 private placement shelf agreement (the "MetLife Shelf Agreement") with Metropolitan Life Insurance Company and MetLife Investment Advisors, LLC and each other affiliate of MetLife that becomes a party to the agreement (collectively, "MetLife"). Subject to the terms and conditions set forth below, the MetLife Shelf Agreement is expected to allow us to issue senior promissory notes to MetLife at fixed or floating rate economic terms to be agreed upon at the time of any issuance during a three-year issuance period ending in September 2019. No notes have been issued under the MetLife Shelf Agreement, which ranks equally with the Company's Credit Agreement and Prudential Shelf Agreement, as of June 30, 2018 and December 31, 2017.

We have agreed to a most favored lender clause which is designed to ensure that any notes in the future under the Prudential Shelf Agreement and MetLife Shelf Agreement will continue to be of equal ranking with indebtedness under our Credit Agreement.

Each shelf agreement contains customary representations and warranties of the Company and the applicable lender, and customary events of default. All outstanding obligations of Graybar under one or both of these agreements may be declared immediately due and payable upon the occurrence of an event of default.

We were in compliance with all covenants under the shelf agreements as of June 30, 2018 and December 31, 2017.

7. PENSION AND OTHER POSTRETIREMENT BENEFITS

We have a noncontributory defined benefit pension plan covering substantially all employees first hired prior to July 1, 2015 after the completion of one year of service and 1,000 hours of service. The plan provides retirement benefits based on an employee's average earnings and years of service. These employees become 100% vested after three years of service, regardless of age. A supplemental benefit plan provides nonqualified benefits for compensation in excess of the IRS compensation limits applicable to the plan and otherwise eligible compensation deferred.

Our plan funding policy is to make contributions, provided that the total annual contributions will not be less than ERISA and the Pension Protection Act of 2006 minimums or greater than the maximum tax-deductible amount, to review the contribution and funding strategy on a regular basis, and to allow discretionary contributions to be made by us from time to time. The assets of the defined benefit pension plan are invested primarily in fixed income investments and equity securities. We pay nonqualified pension benefits when they are due according to the terms of the supplemental benefit plan.

We provide certain postretirement healthcare and life insurance benefits to retired employees. Substantially all of our employees hired or rehired prior to 2014 may become eligible for postretirement medical benefits if they reach the age and service requirements of the retiree medical plan and retire on a pension (except a deferred pension) under the defined benefit pension plan. Medical benefits are self-insured and claims are administered through a third party administrator. The cost of coverage is determined based on the annual projected plan costs. The participant's premium or cost is determined based on Company guidelines. Postretirement life insurance benefits are insured through an insurance company. We fund postretirement benefits as incurred, and accordingly, there were no assets held in the postretirement benefits plan at June 30, 2018 and December 31, 2017.

The net periodic benefit cost for the three and six months ended June 30, 2018 and 2017 includes the following components:

Components of Net Periodic Benefit Cost	Pension Benefits		Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
Selling, general, and administrative expenses:				
Service cost	\$ 7,167	\$ 6,508	\$ 584	\$ 588
Total selling, general, and administrative expenses	\$ 7,167	\$ 6,508	\$ 584	\$ 588
Non-operating expenses:				
Interest cost	6,686	6,909	669	722
Expected return on plan assets	(7,856)	(7,590)	—	—
Amortization of:				
Net actuarial loss	6,522	5,451	201	169
Prior service cost (gain)	84	110	(478)	(540)
Total non-operating expenses	\$ 5,436	\$ 4,880	\$ 392	\$ 351
Net periodic benefit cost	\$ 12,603	\$ 11,388	\$ 976	\$ 939

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>Six Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
Components of Net Periodic Benefit Cost	2018	2017	2018	2017
Selling, general, and administrative expenses:				
Service cost	\$ 14,267	\$ 13,208	\$ 1,159	\$ 1,163
Total selling, general, and administrative expenses	\$ 14,267	\$ 13,208	\$ 1,159	\$ 1,163
Non-operating expenses:				
Interest cost	13,661	13,909	1,319	1,422
Expected return on plan assets	(15,931)	(15,315)	—	—
Amortization of:				
Net actuarial loss	13,247	10,751	426	394
Prior service cost (gain)	159	210	(978)	(1,090)
Total non-operating expenses	\$ 11,136	\$ 9,555	\$ 767	\$ 726
Net periodic benefit cost	\$ 25,403	\$ 22,763	\$ 1,926	\$ 1,889

We made qualified and nonqualified pension contributions totaling \$10,002 and \$18,002 during the three-month periods ended June 30, 2018 and 2017, respectively. Contributions made during the six-month periods ended June 30, 2018 and 2017 totaled \$21,623 and \$37,586, respectively. Additional contributions expected to be paid during the remainder of 2018 total \$20,003, but the amount may change at our discretion.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table represents amounts reclassified from accumulated other comprehensive income (loss) for the three months ended June 30, 2018 and 2017:

	<u>Three Months Ended June 30, 2018</u>			<u>Three Months Ended June 30, 2017</u>		
	<u>Amortization of Pension and Other Postretirement Benefits Items</u>			<u>Amortization of Pension and Other Postretirement Benefits Items</u>		
	<u>Actuarial Losses Recognized</u>	<u>Prior Service Costs Recognized</u>	<u>Total</u>	<u>Actuarial Losses Recognized</u>	<u>Prior Service Costs Recognized</u>	<u>Total</u>
Affected Line in Condensed Consolidated Statement of Income:						
Non-operating expenses	\$ 6,723	\$ (394)	\$ 6,329	\$ 5,620	\$ (430)	\$ 5,190
Tax (benefit) expense	(1,731)	101	(1,630)	(2,186)	167	(2,019)
Total reclassifications for the period, net of tax	\$ 4,992	\$ (293)	\$ 4,699	\$ 3,434	\$ (263)	\$ 3,171

The following table represents amounts reclassified from accumulated other comprehensive income (loss) for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Amortization of Pension and Other Postretirement Benefits Items			Amortization of Pension and Other Postretirement Benefits Items		
	Actuarial Losses Recognized	Prior Service Costs Recognized	Total	Actuarial Losses Recognized	Prior Service Costs Recognized	Total
Affected Line in Condensed Consolidated Statement of Income:						
Non-operating expenses	\$ 13,673	\$ (819)	\$ 12,854	\$ 11,145	\$ (880)	\$ 10,265
Tax (benefit) expense	(3,520)	210	(3,310)	(4,335)	342	(3,993)
Total reclassifications for the period, net of tax	\$ 10,153	\$ (609)	\$ 9,544	\$ 6,810	\$ (538)	\$ 6,272

The following table represents the activity included in accumulated other comprehensive income (loss) for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
	Foreign Currency	Pension and Other Postretirement Benefits	Total	Foreign Currency	Pension and Other Postretirement Benefits	Total
Beginning balance April 1	\$ (7,078)	\$ (240,707)	\$ (247,785)	\$ (9,752)	\$ (183,156)	\$ (192,908)
Other comprehensive (loss) income before reclassifications	(1,675)	—	(1,675)	2,204	—	2,204
Amounts reclassified from accumulated other comprehensive income (net of tax \$(1,630) and \$(2,019))	—	4,699	4,699	—	3,171	3,171
Net current-period other comprehensive (loss) income	(1,675)	4,699	3,024	2,204	3,171	5,375
Ending balance June 30	\$ (8,753)	\$ (236,008)	\$ (244,761)	\$ (7,548)	\$ (179,985)	\$ (187,533)

The following table represents the activity included in accumulated other comprehensive income (loss) for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
	Foreign Currency	Pension and Other Postretirement Benefits	Total	Foreign Currency	Pension and Other Postretirement Benefits	Total
Beginning balance January 1,	\$ (4,602)	\$ (245,552)	\$ (250,154)	\$ (10,343)	\$ (186,257)	\$ (196,600)
Other comprehensive (loss) income before reclassifications	(4,151)	—	(4,151)	2,795	—	2,795
Amounts reclassified from accumulated other comprehensive income (net of tax \$(3,310) and \$(3,993))	—	9,544	9,544	—	6,272	6,272
Net current-period other comprehensive (loss) income	(4,151)	9,544	5,393	2,795	6,272	9,067
Ending balance June 30	\$ (8,753)	\$ (236,008)	\$ (244,761)	\$ (7,548)	\$ (179,985)	\$ (187,533)

9. ASSETS HELD FOR SALE

We consider properties to be assets held for sale when all of the following criteria are met: (i) a formal commitment to a plan to sell a property has been made and exercised; (ii) the property is available for sale in its present condition; (iii) actions required to complete the sale of the property have been initiated; (iv) sale of the property is probable and we expect the sale will occur within one year; and (v) the property is being actively marketed for sale at a price that is reasonable given its current market value.

Upon designation as an asset held for sale, we record the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and depreciation of the property ceases. There were no assets held for sale at June 30, 2018 or December 31, 2017. During the three and six months ended June 30, 2017, we sold assets classified as held for sale with a net book value of \$464 and recorded a net gain on the assets held for sale of \$197 in other income, net on the condensed consolidated statements of income. There were no assets held for sale at June 30, 2017.

We review long-lived assets held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For assets classified as held and used, impairment may occur if projected undiscounted cash flows are not adequate to cover the carrying value of the assets. In such cases, additional analysis is conducted to determine the amount of the loss to be recognized. The impairment loss is calculated as the difference between the carrying amount of the asset and its estimated fair value. The analysis requires estimates of the amount and timing of projected cash flows and, where applicable, selection of an appropriate discount rate. Such estimates are critical in determining whether any impairment charge should be recorded and the amount of such charge if an impairment loss is deemed necessary.

For assets held for sale, impairment occurs whenever the net book value of the property listed for sale exceeds the expected selling price less estimated selling expenses. There were no impairment charges recorded during the three- and six-month periods ended June 30, 2018 and 2017.

10. COMMITMENTS AND CONTINGENCIES

Graybar and our subsidiaries are subject to various claims, disputes, and administrative and legal matters incidental to our past and current business activities. As a result, contingencies may arise resulting from an existing condition, situation, or set of circumstances involving an uncertainty as to the realization of a possible loss.

Estimated loss contingencies are accrued only if the loss is probable and the amount of the loss can be reasonably estimated. With respect to a particular loss contingency, it may be probable that a loss has occurred but the estimate of the loss is a wide range. If we deem an amount within the range to be a better estimate than any other amount within the range, that amount will be accrued. However, if no amount within the range is a better estimate than any other amount, the minimum amount of the range is accrued. While we believe that none of these claims, disputes, administrative, and legal matters will have a material adverse effect on our financial position, these matters are uncertain and we cannot at this time determine whether the financial impact, if any, of these matters will be material to our results of operations in the period in which such matters are resolved or a better estimate becomes available.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our accompanying unaudited condensed consolidated financial statements and notes thereto, and our audited consolidated financial statements, notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2017, included in our Annual Report on Form 10-K for such period as filed with the United States Securities and Exchange Commission (the "Commission"). The results shown herein are not necessarily indicative of the results to be expected in any future periods.

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes", "projects", "expects", "anticipates", "estimates", "intends", "strategy", "plan", "may", "will", "would", "will be", "will continue", "will likely result", and other similar expressions. We intend such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the PSLRA. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse impact on our operations and future prospects on a consolidated basis include, but are not limited to: general economic conditions, particularly in the residential, commercial, and industrial building construction industries; volatility in the prices of industrial commodities; a sustained interruption in the operation of our information systems; cyber-attacks; increased funding requirements and expenses related to our pension plan; disruptions in our sources of supply; the inability, or limitations on our ability to borrow under our existing credit facilities or any replacements thereof; adverse legal proceedings or other claims; compliance with changing governmental regulations; and the inability, or limitations on our ability, to raise debt or equity capital. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless otherwise required by applicable securities law. Further information concerning our business, including additional factors that could materially impact our financial results, is included herein and in our other filings with the Commission. Actual results and the timing of events could differ materially from the forward-looking statements as a result of certain factors, a number of which are outlined in Item 1A., "Risk Factors", of our Annual Report on Form 10-K for the year ended December 31, 2017.

All dollar amounts, except per share data, are stated in thousands (\$000s) in the following discussion and accompanying tables.

Background

Graybar Electric Company, Inc. ("Graybar", "Company", "we", "our", or "us") is a New York corporation, incorporated in 1925. We are engaged in the distribution of electrical and communications and data networking products and are a provider of related supply chain management and logistics services. We primarily serve customers in the construction, industrial & utility and commercial, institutional and government ("CIG") vertical markets, with products and services that support new construction, infrastructure updates, building renovation, facility maintenance, repair and operations ("MRO"), and original equipment manufacturers ("OEMs"). We purchase all the products we sell from others, and we neither manufacture nor contract to manufacture any products we sell. Our business activity is primarily based in the United States ("U.S."). We also have subsidiary operations with distribution facilities in Canada and Puerto Rico.

Our common stock is 100% owned by active and retired employees, and there is no public trading market for our common stock. No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer, or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. Additionally, before the shareholder action described in the next sentence became effective, a shareholder was entitled to any cash dividends accrued for the quarter in which the purchase offer is made, adjusted pro rata for the number of days such shares were held prior to the dividend record date. On June 8, 2017, the shareholders voted to remove this adjustment for accruing dividends on the common stock. We also have the option to purchase at the issue price the common shares of any shareholder who ceases to be an employee for any reason other than death or "retirement" (as defined in our amended restated certificate of incorporation), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

Business Overview

Our net sales for the three months ended June 30, 2018 set a new quarterly sales record for the Company. Net sales for the second quarter of 2018 totaled \$1,832,332, an increase of \$119,452, or 7.0%, compared to net sales of \$1,712,880 for the second quarter of 2017. We believe this increase is a result of our continued investment in people, technology and service innovation.

Gross margin increased \$28,263, or 8.8% to \$351,156 for the three months ended June 30, 2018, compared to \$322,893 for the second quarter of 2017. Gross margin rate was 19.2% for the three months ended June 30, 2018, compared to 18.9% for the three months ended June 30, 2017. The increase in gross margin rate was a result of our pricing and product diversification initiatives.

Net income attributable to Graybar for the three months ended June 30, 2018 was \$44,492, which was \$11,158, or 33.5%, higher than net income attributable to Graybar of \$33,334 for the same period last year.

Net sales for the six months ended June 30, 2018 were \$3,469,984, an increase of \$226,533, or 7.0%, from net sales of \$3,243,451 for the same six-month period last year. Gross margin for the six months ended June 30, 2018 was \$662,575, an increase of \$39,853, or 6.4%, compared to gross margin of \$622,722 for the same six-month period last year. Gross margin rate was 19.1% for the six-month period ended June 30, 2018, compared to 19.2% for the six-month period ended June 30, 2017. Net income attributable to Graybar for the six months ended June 30, 2018 was \$65,585, an increase of \$14,570, or 28.6%, from net income attributable to Graybar of \$51,015 for the same six-month period last year.

As we look ahead, we will sustain our focus on delivering an exceptional customer experience, driving accelerated growth and transforming our business for the future. We will continue to manage our business wisely to achieve profitable organic growth, while we seek out new opportunities that will enhance our long-term performance and strengthen our position as a leader in supply chain innovation.

Consolidated Results of Operations

The following tables set forth certain information relating to our operations stated in thousands of dollars and as a percentage of net sales for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Dollars	Percent	Dollars	Percent
Net Sales	\$ 1,832,332	100.0%	\$ 1,712,880	100.0%
Cost of merchandise sold	(1,481,176)	(80.8)	(1,389,987)	(81.1)
Gross Margin	351,156	19.2	322,893	18.9
Selling, general and administrative expenses	(270,768)	(14.8)	(252,107)	(14.7)
Depreciation and amortization	(12,358)	(0.7)	(12,144)	(0.7)
Other income, net	652	—	3,521	0.2
Income from Operations	68,682	3.7	62,163	3.7
Non-operating expenses	(7,527)	(0.4)	(6,299)	(0.4)
Income before Provision for Income Taxes	61,155	3.3	55,864	3.3
Provision for income taxes	(16,574)	(0.9)	(22,463)	(1.4)
Net Income	44,581	2.4	33,401	1.9
Less: Net income attributable to noncontrolling interests	(89)	—	(67)	—
Net Income attributable to Graybar Electric Company, Inc.	\$ 44,492	2.4%	\$ 33,334	1.9%

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2017	
	Dollars	Percent	Dollars	Percent
Net Sales	\$ 3,469,984	100.0%	\$ 3,243,451	100.0%
Cost of merchandise sold	(2,807,409)	(80.9)	(2,620,729)	(80.8)
Gross Margin	662,575	19.1	622,722	19.2
Selling, general and administrative expenses	(534,129)	(15.4)	(505,102)	(15.6)
Depreciation and amortization	(24,415)	(0.7)	(24,020)	(0.7)
Other income, net	1,416	—	4,129	0.1
Income from Operations	105,447	3.0	97,729	3.0
Non-operating expenses	(15,013)	(0.4)	(12,146)	(0.3)
Income before Provision for Income Taxes	90,434	2.6	85,583	2.7
Provision for income taxes	(24,689)	(0.7)	(34,459)	(1.1)
Net Income	65,745	1.9	51,124	1.6
Less: Net income attributable to noncontrolling interests	(160)	—	(109)	—
Net Income attributable to Graybar Electric Company, Inc.	\$ 65,585	1.9%	\$ 51,015	1.6%

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Net sales increased to \$1,832,332 for the quarter ended June 30, 2018, compared to \$1,712,880 for the quarter ended June 30, 2017, an increase of \$119,452, or 7.0%. Net sales in our construction, industrial & utility, and CIG vertical markets increased for the three months ended June 30, 2018, compared to the same three-month period of 2017 by 8.2%, 6.4%, and 3.8%, respectively.

Gross margin increased \$28,263, or 8.8%, to \$351,156 for the three months ended June 30, 2018, from \$322,893 for the same period in 2017. The increase in gross margin was primarily due to increased net sales in the second quarter of 2018. Our gross margin as a percent of net sales was 19.2% for the three months ended June 30, 2018, compared to 18.9% for the three months ended June 30, 2017. The increase in gross margin rate was a result of our pricing and product diversification initiatives.

Selling, general and administrative ("SG&A") expenses increased \$18,661, or 7.4%, to \$270,768 in the second quarter of 2018 from \$252,107 in the second quarter of 2017, due primarily to higher compensation and benefit related costs. SG&A expenses as a percentage of net sales totaled 14.8% for the three months ended June 30, 2018, compared to 14.7% for the three months ended June 30, 2017.

Depreciation and amortization for the three months ended June 30, 2018 increased \$214, or 1.8%, to \$12,358 from \$12,144 in the second quarter of 2017. The increase was due to an increase in property, at cost. Total property, at cost, at June 30, 2018 was \$979,602, an increase of \$25,627, or 2.7%, when compared to total property, at cost, at June 30, 2017 of \$953,975. Depreciation and amortization as a percentage of net sales remained constant at 0.7% for the three months ended June 30, 2018 and 2017.

Other income, net totaled \$652 for the three-month period ended June 30, 2018, compared to \$3,521 for the three months ended June 30, 2017. Other income, net consists primarily of gains on the disposal of property, trade receivable interest charges to customers, and other miscellaneous income items related to our business activities. The decrease in other income, net was primarily due to a favorable settlement of a prior claim received during the three months ended June 30, 2017 that was not repeated during the three months ended June 30, 2018.

Non-operating expenses for the three months ended June 30, 2018, increased \$1,228, or 19.5%, to \$7,527 from \$6,299 for the three months ended June 30, 2017. The increase was due to increases in interest expense, net of \$631 and non-service cost components of net periodic benefit costs of \$597 for the three months ended June 30, 2018, compared to the same three-month period in 2017. The increase in interest expense, net was due to higher interest rates and higher levels of average outstanding short-term borrowings for the three months ended June 30, 2018, compared to the same three-month period in 2017.

Income before provision for income taxes totaled \$61,155 for the three months ended June 30, 2018, an increase of \$5,291, or 9.5%, from \$55,864 for the three months ended June 30, 2017. The increase was primarily due to our growth in gross margin outpacing our growth in SG&A expenses, depreciation and amortization, and non-operating expenses.

Our total provision for income taxes decreased \$5,889, or 26.2%, to \$16,574 for the three months ended June 30, 2018, compared to \$22,463 for the same period of 2017. The decrease in our provision for income taxes is due to the reduction of the U.S. federal corporate income tax rate to 21.0% as part of the enactment of the Tax Cuts and Jobs Act ("TCJA") signed into law in the fourth quarter of 2017. As a result of the TCJA, our effective tax rate was 27.1% for the three months ended June 30, 2018, compared to 40.2% for the same period of 2017.

Net income attributable to Graybar Electric Company, Inc. for the three months ended June 30, 2018 increased \$11,158, or 33.5%, to \$44,492 from \$33,334 for the three months ended June 30, 2017.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Net sales increased to \$3,469,984 for the six-month period ended June 30, 2018, compared to \$3,243,451 for the six-month period ended June 30, 2017, an increase of \$226,533, or 7.0%. Net sales in our construction, industrial & utility, and CIG vertical markets increased by 7.8%, 7.7%, and 3.8%, respectively, for the six months ended June 30, 2018, compared to the same six-month period of 2017.

Gross margin increased \$39,853, or 6.4%, to \$662,575 from \$622,722 primarily due to increased net sales in the first six months of 2018, compared to the same period of 2017. Our gross margin as a percent of net sales totaled 19.1% for the six months ended June 30, 2018, down from 19.2% for the six months ended June 30, 2017. The decrease in gross margin rate was caused by supplier cost increases as well as increased competitive pricing pressures during the six months ended June 30, 2018.

SG&A expenses increased \$29,027, or 5.7%, to \$534,129, for the six-month period ended June 30, 2018, compared to \$505,102 for the six-month period ended June 30, 2017, due primarily to higher compensation and benefit related costs for the six months ended June 30, 2018. SG&A expenses as a percentage of net sales were 15.4% for the six months ended June 30, 2018, down from 15.6% for the six months ended June 30, 2017.

Depreciation and amortization for the six months ended June 30, 2018 increased \$395, or 1.6%, to \$24,415 from \$24,020 for the same six-month period in 2017, due to an increase in property, at cost. Total property, at cost, at June 30, 2018 was \$979,602, an increase of \$25,627, or 2.7%, when compared to total property, at cost, at June 30, 2017 of \$953,975. Depreciation and amortization as a percentage of net sales remained constant at 0.7% for the six months ended June 30, 2018 and 2017.

Other income, net totaled \$1,416 for the six-month period ended June 30, 2018, compared to \$4,129 for the six months ended June 30, 2017. Other income, net consists primarily of gains on the disposal of property, trade receivable interest charges to customers, and other miscellaneous income items related to our business activities. The decrease in other income, net was due to a favorable settlement of a prior claim received during the six months ended June 30, 2017 that was not repeated during the six months ended June 30, 2018.

Non-operating expenses increased \$2,867, or 23.6%, to \$15,013 for the six months ended June 30, 2018, compared to \$12,146 for the same period of 2017. The increase was due to increases in non-service cost components of net periodic benefit costs of \$1,622 and interest expense, net of \$1,245 for the six months ended June 30, 2018, compared to the same six-month period in 2017. The increase in interest expense, net was due to higher interest rates and higher levels of average outstanding short-term borrowings for the six months ended June 30, 2018, compared to the same six-month period in 2017.

Income before provision for income taxes totaled \$90,434 for the six months ended June 30, 2018, an increase of \$4,851, or 5.7%, from \$85,583 for the six months ended June 30, 2017. The increase was primarily due to our growth in gross margin outpacing our increases in SG&A expenses, depreciation and amortization, and non-operating expenses.

Our total provision for income taxes decreased \$9,770, or 28.4%, to \$24,689 for the six months ended June 30, 2018, compared to \$34,459 for the same period in 2017. The decrease in our provision for income taxes is due to the reduction of the U.S. federal corporate income tax rate of 21.0% as part of the enactment of the TCJA. Our year-to-date effective tax rate was 27.3% for the six months ended June 30, 2018, compared to 40.3% for the same period in 2017 as a result of the TCJA.

Net income attributable to Graybar Electric Company, Inc. for the six-month period ended June 30, 2018 increased \$14,570, or 28.6%, to \$65,585 from \$51,015 for the six months ended June 30, 2017.

Financial Condition and Liquidity

We manage our liquidity and capital levels so that we have the capability to invest in the growth of our business, meet debt service obligations, finance anticipated capital expenditures, pay dividends, make benefit payments, finance information technology needs, fund acquisitions and finance other miscellaneous cash outlays. We believe that maintaining a strong company financial condition enables us to competitively access multiple financing channels, maintain an optimal cost of capital and enable our company to invest in strategic long-term growth plans.

We have historically funded our working capital requirements using cash flows generated by the collection of trade receivables and trade accounts payable terms with our suppliers, supplemented by short-term bank lines of credit. Capital expenditures have been financed primarily by cash from working capital management, short-term bank lines of credit and long-term debt.

Our cash and cash equivalents at June 30, 2018 were \$47,084, compared to \$42,757 at December 31, 2017, an increase of \$4,327, or 10.1%. Our short-term borrowings increased by \$60,357, or 35.6%, during the six-month period to \$230,000 at June 30, 2018 from \$169,643 at December 31, 2017, primarily as a result of higher working capital investment required to support operating activities due to the growth in sales and due to funding of employee benefits, all funded via short-term lines of credit. Current assets exceeded current liabilities by \$541,076 at June 30, 2018, an increase of \$45,580, or 9.2%, from \$495,496 at December 31, 2017.

Operating Activities

Cash used by operations for the six months ended June 30, 2018 was \$25,489, compared to cash used by operations of \$43,060 for the six months ended June 30, 2017. Cash used by operations for the six months ended June 30, 2018, was primarily attributable to net income of \$65,745 and an increase in trade accounts payable of \$58,056 from December 31, 2017 to June 30, 2018, more than offset by an increase in trade receivables of \$87,929 from December 31, 2017 to June 30, 2018 and an increase in merchandise inventory of \$43,260 during the six months ended June 30, 2018, both to support the increase in net sales, as well as a decrease in accrued payroll benefits of \$43,540 from December 31, 2017 to June 30, 2018.

The average number of days of sales in trade receivables for the six-month period ended June 30, 2018 increased moderately compared to the same six-month period ended June 30, 2017, due to a higher increase in trade receivables for the first six months of 2018, as compared to the same period in 2017. The days in inventory remained relatively flat for the six months ended June 30, 2018, compared to the six months ended June 30, 2017.

Investing Activities

Net cash used by investing activities totaled \$19,012 for the six months ended June 30, 2018, compared to net cash used by investing activities of \$15,993 for the same six-month period in 2017, an increase of \$3,019, or 18.9%. The increase was due to higher capital expenditures in the six months ended June 30, 2018, compared to the six months ended June 30, 2017. Proceeds on the disposal of property also decreased during the six months ended June 30, 2018, compared to the same period in 2017.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2018 totaled \$48,828, compared to net cash provided by financing activities of \$59,619 for the six months ended June 30, 2017, a decrease of \$10,791, or 18.1%. The decrease was due to a smaller increase in short-term borrowings and an increase in the purchases of common stock for the six months ended June 30, 2018, as compared to the six months ended June 30, 2017.

Liquidity

We had a \$550,000 revolving credit facility with \$320,000 in available capacity at June 30, 2018, compared to available capacity of \$380,357 at December 31, 2017. At June 30, 2018 and December 31, 2017, we also had two uncommitted \$100,000 private placement shelf agreements ("shelf agreements"). The first of the shelf agreements is expected to allow us to issue senior promissory notes to PGIM, Inc., at fixed rate terms to be agreed upon at the time of any issuance during a three-year issuance period ending in August 2020. The second of the shelf agreements is expected to allow us to issue senior promissory notes to Metropolitan Life Insurance Company and MetLife Investment Advisors, LLC and each other affiliate of MetLife Investment Advisors, LLC that becomes a party to the agreement, at fixed or floating rate terms to be agreed upon at the time of any issuance during a three-year issuance period ending in September 2019.

We have not issued any notes under the shelf agreements as of June 30, 2018 and December 31, 2017. For further discussion related to our revolving credit facility and our private placement shelf agreements, refer to Note 6, "Debt", of the notes to the condensed consolidated financial statements located in Item 1.

We had total letters of credit of \$5,371, outstanding, none of which were issued under the \$550,000 revolving credit facility at both June 30, 2018 and December 31, 2017. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

New Accounting Standards Updates

Our adoption of new accounting standards are discussed in Note 2, "Summary of Significant Accounting Policies", of the notes to the condensed consolidated financial statements located in Item 1., "Financial Statements", of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the policies, procedures, controls, or risk profile from those provided in Item 7A., "Quantitative and Qualitative Disclosures About Market Risk", of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2018, was performed under the supervision and with the participation of management. Based on that evaluation, our management, including the Principal Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use Of Proceeds.

Our common stock is 100% owned by active and retired employees, and there is no public trading market for our common stock. Since 1928, substantially all of the issued and outstanding shares of common stock have been held of record by voting trustees under successive voting trust agreements. Under applicable New York law, a voting trust may not have a term greater than ten years. Accordingly, a new Voting Trust Agreement was established effective March 3, 2017, which expires by its terms on March 1, 2027. At June 30, 2018, approximately 82% of the common stock was held in the voting trust. The participation of shareholders in the voting trust is voluntary at the time the voting trust is created, but is irrevocable during its term. Shareholders who elect not to participate in the voting trust hold their common stock as shareholders of record. Shareholders may elect to participate in the voting trust at any time during the term of the voting trust.

No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer, or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. Additionally, before the shareholder action described in the next sentence became effective, a shareholder was entitled to any cash dividends accrued for the quarter in which the purchase offer is made, adjusted pro rata for the number of days such shares were held prior to the dividend record date. On June 8, 2017, the shareholders voted to remove this adjustment for accruing dividends on the common stock. We also have the option to purchase at the issue price the common shares of any shareholder who ceases to be an employee for any cause other than death or "retirement" (as defined in our amended restated certificate of incorporation), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

The following table sets forth information regarding purchases of common stock by the Company, all of which were made pursuant to the foregoing provisions:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
April 1 - April 30, 2018	118,382	\$20.00	N/A
May 1 - May 31, 2018	39,628	\$20.00	N/A
June 1 - June 30, 2018	66,007	\$20.00	N/A
Total	224,017	\$20.00	N/A

Item 6. Exhibits.

- 3.1 [Restated Certificate of Incorporation, as amended, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated June 8, 2017 \(Commission File No. 000-00255\) and incorporated herein by reference.](#)
- 3.2 [By-laws as amended through March 9, 2017, filed as Exhibit 3\(ii\) to the Company's Current Report on Form 8-K dated March 9, 2017 \(Commission File No. 000-00255\) and incorporated herein by reference.](#)
- 4.2 [Voting Trust Agreement, dated as of March 3, 2017, a form of which is attached as Exhibit A to the Prospectus dated January 6, 2017, constituting a part of the Company's Registration Statement on Form S-1/A \(Registration No. 333-214560\), and incorporated herein by reference.](#)
- 9 Voting Trust Agreement dated as of March 3, 2017, included at Exhibit 4.2 above.
- 31.1 [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Principal Executive Officer](#)
- 31.2 [Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Principal Financial Officer](#)
- 32.1 [Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Principal Executive Officer](#)
- 32.2 [Certification of Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Principal Financial Officer](#)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRAYBAR ELECTRIC COMPANY, INC.

July 31, 2018

Date

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President and Chief Executive Officer
(Principal Executive Officer)

July 31, 2018

Date

/s/ RANDALL R. HARWOOD

Randall R. Harwood

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Kathleen M. Mazzarella, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of Graybar Electric Company, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 31, 2018

Date

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Randall R. Harwood, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of Graybar Electric Company, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 31, 2018

Date

/s/ RANDALL R. HARWOOD

Randall R. Harwood

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kathleen M. Mazzarella, President and Chief Executive Officer of Graybar Electric Company, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 31, 2018

Date

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Randall R. Harwood, Senior Vice President and Chief Financial Officer of Graybar Electric Company, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 31, 2018

Date

/s/ RANDALL R. HARWOOD

Randall R. Harwood

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)