
UNITED STATES SECURITIES AND EXCHANGE COMMISSION**Washington, D.C. 20549****FORM 10-K**☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2019

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)*

Securities registered pursuant to Section 12(b) of the Act:

None

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

N/A

N/A

N/A

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock - Par Value \$1.00 Per Share with a
Stated Value of \$20.00**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES ☐NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES ☐NO ☒

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒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 an 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 ☐Non-accelerated filer ☒Accelerated filer ☐Smaller reporting company ☐Emerging growth company ☐If an emerging 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 Act). YES ☐ NO ☒

The aggregate stated value of the Common Stock beneficially owned with respect to rights of disposition by persons who are not affiliates (as defined in Rule 405 under the Securities Act of 1933) of the registrant on June 30, 2019, was \$425,463,180. Pursuant to a Voting Trust Agreement, dated as of March 3, 2017, approximately 84.5% of the outstanding shares of Common Stock was held of record by five Trustees who were each directors or officers of the registrant and who collectively exercised the voting rights with respect to such shares at such date. The registrant is 100% owned by its active and retired employees, and there is no public trading market for the registrant's Common Stock. See Item 5 of this Annual Report on Form 10-K.

The number of shares of Common Stock outstanding at March 1, 2020 was 22,689,848.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the documents listed below have been incorporated by reference into the indicated Part of this Annual Report on Form 10-K: Information Statement relating to the 2020 Annual Meeting of Shareholders – Part III, Items 10-14

Graybar Electric Company, Inc. and Subsidiaries
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2019

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PART I

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the accompanying audited consolidated financial statements of Graybar Electric Company, Inc. and its subsidiaries (collectively referred to as “Graybar” or the “Company” and sometimes referred to as “we”, “our”, or “us”), the notes thereto, and Management’s Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2019, included in this Annual Report on Form 10-K. 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; a sustained interruption in the operation of our information systems; volatility in the prices of industrial commodities; 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 United States Securities and Exchange Commission (the “SEC” or “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 this Annual Report on Form 10-K.

All dollar amounts in this Annual Report on Form 10-K are stated in millions except for share and per share data.

Item 1. Business

The Company

Graybar is a leading North American distributor of electrical and communications and data networking products and is a provider of related supply chain management and logistics services. We primarily serve customers in the construction, commercial, institutional and government (“CIG”), and industrial & utility vertical markets (“vertical” or “verticals”), with products and services that support new construction, infrastructure updates, building renovation, facility maintenance, repair and operations (“MRO”), and original equipment manufacturers (“OEM”).

Through a network of 288 locations across the United States and Canada, we serve approximately 146,000 customers. Our business is primarily based in the United States (“U.S.”). We also have subsidiary operations with distribution facilities in Canada and Puerto Rico.

We distribute over one million products purchased from approximately 4,500 manufacturers and suppliers. We purchase all of the products we sell from others, and we neither manufacture nor contract to manufacture any products we sell.

We generally finance our inventory through the collection of trade receivables and trade accounts payable terms with our suppliers. We use short-term borrowing facilities to finance inventory purchases and other operating expenses when necessary, and we have not historically used long-term borrowings for this purpose.

In addition to our extensive product offering, we provide a wide range of supply chain management services that when combined with our network of locations are designed to deliver convenience, cost savings and improved efficiency for our customers.

We were incorporated in 1925 under the laws of the State of New York. Our active and retired employees own 100% of our common stock. There is no public trading market for our common stock.

Our internet address is www.graybar.com. Information on our website does not constitute a part of this Annual Report on Form 10-K.

Competition

Our industry is comprised of thousands of local and regional distributors, along with several large national and global distributors. Graybar is among the largest distributors of electrical and communications and data networking products to the construction, CIG, and industrial & utility verticals in North America. Our industry is highly competitive, and we estimate that the top five distributors account for approximately 30% of the total U.S. market. Some of our largest competitors have greater global geographic scope, which may provide them an advantage, particularly with certain multi-national customers.

Our industry is influenced by economic and regulatory factors that impact rates of new construction, as well as customers' or end users' decisions to invest in renovation and expansion of facilities and infrastructure. The industry is also affected by changes in technology, both in the products that are typically sold through distribution and in the ways customers choose to transact business with distributors. Driven by customers' omnichannel buying preferences and their desire to increase efficiency and productivity, digitalization is becoming increasingly important to both manufacturers and distributors in our industry.

Our pricing reflects the value associated with the products and services that we provide. We consider our prices to be generally competitive. We believe that, while price is an important customer consideration, the services we provide distinguish us from many of our competitors, whether they are distributors or manufacturers selling directly to our customer base. We view our ability to quickly supply our customers with a broad range of products through conveniently located distribution facilities as a competitive advantage that customers value. However, if a customer is not looking for one distributor to provide a wide range of products and does not require prompt delivery or other services, a competitor that does not provide this level of service may be in a position to offer lower prices.

Markets Served

Graybar serves a wide range of customers within certain primary verticals. The largest of these verticals is construction, which accounted for more than half of our sales in 2019. Customers within this vertical include various types of contractors and installers that perform new construction and renovation of commercial and industrial facilities and utility infrastructure.

The other verticals we serve are CIG and industrial & utility. The CIG vertical includes a broad range of commercial office, warehouse, and retail facilities, federal, state, and local governmental agencies, education and health care sectors. The industrial & utility vertical includes customers and products for MRO, OEM, broadband utility and electrical transmission and distribution infrastructure.

The following table provides the approximate percentages of our net sales attributable to each of the verticals we serve:

Year Ended December 31,	2019	2018	2017
Construction	60.1%	59.7%	58.7%
Commercial, Institutional & Government	20.6%	20.8%	21.1%
Industrial & Utility	19.3%	19.5%	20.2%

Certain reclassifications have been made to the vertical market assigned to customers in the prior years' information to conform to the December 31, 2019 presentation.

Products and Suppliers

We distribute over one million products purchased from approximately 4,500 manufacturers and suppliers. Approximately 110,000 of these products are stocked in our warehouses, allowing us in most cases to provide customers with convenient, local access to the items they need every day. When the specialized nature or size of a particular shipment warrants, we arrange to ship products directly from our suppliers; otherwise, orders are filled from our own on-hand inventory. On a dollar volume basis, we filled approximately 60% and 55% of customer orders from this on-hand inventory in 2019 and 2018, respectively.

Approximately 50% of the products we sold during 2019 were purchased from our top 25 suppliers. However, we generally have the ability to purchase from more than one supplier for any product type, which allows us to offer alternative sources of comparable products for nearly all products. The products we distribute can be generally identified as follows:

- LED and Incandescent Lighting
- Building and Industrial Wire and Cable
- Distribution Equipment
- Telecommunications Material
- Communication Wire and Cable
- Conduit and Tray
- Data Connectivity
- Automation and Controls
- Fluorescent Lighting
- Fittings
- Data Cables and Cords
- Wiring Devices
- Fasteners
- Enclosures
- LED, Incandescent and Fluorescent Lamps
- Electronic Equipment
- MRO Supplies

These products may be sold into any of the verticals we target, depending on a customer's or end user's needs. Our salesforce is empowered to sell any of these products or related services to any customer, in some cases with the support of specialists who are trained in specific industries and/or new technologies.

Maintaining strong relationships with our suppliers is important to our business, and we enjoy longstanding relationships with several of our suppliers (or their predecessors). However, most of our supplier agreements are nonexclusive national or regional distributorships, terminable upon 30 to 90 days' notice by either party.

Sales and Distribution

We sell products and services manufactured or provided by others primarily through a network of sales offices and distribution facilities located in thirteen geographical districts throughout the U.S. We operate multiple distribution facilities in each district, each of which carries an inventory of products and operates as a wholesale distributor for the territory in which it is located. Some districts have sales offices that do not carry inventory. In addition, we have nineteen regional distribution centers containing inventories of both standard and specialized products. The regional distribution centers replenish inventories carried at our other U.S. distribution facilities and make shipments directly to customers. We also have subsidiary operations with distribution facilities located in the U.S. and Canada and a single distribution facility in Puerto Rico.

The sales and distribution facilities operated by us at December 31, 2019 are shown below:

U.S. Locations	
District	Number of Sales and Distribution Facilities*
Atlanta	23
Boston	13
California	23
Chicago	22
Dallas	19
Minneapolis	20
New York	14
Phoenix	11
Pittsburgh	21
Richmond	20
Seattle	12
St. Louis	18
Tampa	21
*Includes Regional Distribution Centers	
U.S. Subsidiaries	19
International Locations	32

At December 31, 2019, we employed approximately 4,700 people in sales capacities. Approximately 3,000 of these sales personnel were inside and outside sales representatives working to generate sales with current and prospective customers. The remaining 1,700 employees were customer service representatives who provided support services to our customers and our salesforce.

We had orders on hand totaling \$1,212.0 million and \$1,221.7 million at December 31, 2019 and 2018, respectively. We expect that approximately 90% of the orders we had on hand at December 31, 2019 will be filled within the twelve-month period ending December 31, 2020. Generally, orders placed by customers and accepted by us have resulted in sales. However, customers from time to time request cancellation, and we have historically allowed such cancellations.

Foreign Sales

Sales to customers in foreign countries were made primarily by our subsidiaries in Canada and Puerto Rico and accounted for approximately 5% of consolidated sales in 2019, 2018, and 2017. Long-lived assets located outside the U.S. represented approximately 1% of our consolidated total assets at the end of 2019, 2018, and 2017. We do not have significant foreign currency exposure, and we do not believe there are any significant risks attendant to our foreign operations, other than those noted in Item 1A. Risk Factors.

Employees

At December 31, 2019, we employed approximately 9,000 people on a full-time basis. Approximately 150 of these people were covered by union contracts. We have not had a material work stoppage and consider our relations with our employees to be good.

Item 1A. Risk Factors

Our liquidity, financial condition, and results of operations are subject to various risks, including, but not limited to, those discussed below. The risks outlined below are those that we believe are currently the most significant, although additional risks not presently known to us or that we currently deem less significant may also impact our liquidity, financial condition, and results of operations.

Our sales fluctuate with general economic conditions, particularly in the residential, commercial, and industrial building construction industries. Our operating locations are widely distributed geographically across the U.S. and, to a lesser extent, Canada. Customers for our products and services are similarly diverse – we have approximately 146,000 customers, and our largest customer accounts for approximately 1% of our total sales. While our geographic and customer concentrations are relatively low, our results of operations are nonetheless dependent on favorable conditions in both the general economy and the construction industry. In addition, conditions in the construction industry are greatly influenced by the availability of project financing and the cost of borrowing.

Our daily activities are highly dependent on the uninterrupted operation of our information systems. We are a recognized industry leader for our use of information technology in all areas of our business – sales, customer service, inventory management, finance, accounting, and human resources. We maintain redundant information systems as part of our disaster recovery program and, if necessary, are able to operate in many respects using a paper-based system to help mitigate a complete interruption in our information processing capabilities. Nonetheless, our information systems remain vulnerable to natural disasters, wide-area telecommunications or power utility outages, terrorist or cyber-attacks, or other major disruptions. A sustained interruption in the functioning of our information systems, however unlikely, could lower operating income by negatively impacting sales, expenses, or both.

Our results of operations are impacted by changes in industrial commodity prices. Many of the products we sell are subject to wide and frequent price fluctuations because they are composed primarily of copper, steel, or petroleum-based resins, including poly-vinyl chlorides ("PVC"), industrial commodities that have been subject to price volatility during the past several years. Examples of such products include wire and cable, conduit, enclosures, and fittings. Our gross margin rate on these products is relatively constant over time, though not necessarily in the short term. Therefore, as the cost of these products to us declines, pricing to our customers may decrease. This impacts our results of operations by lowering both overall sales and gross margin.

Our business and our reputation could be adversely affected by the failure to protect sensitive customer, employee or vendor data or to comply with evolving regulations relating to obligations to protect systems, assets and data from the threat of cyber-attacks. Cyber-attacks designed to gain access to sensitive information by breaching mission-critical systems of large organizations are constantly evolving, and high profile electronic security breaches leading to unauthorized release of confidential information have occurred recently at a number of major U.S. companies, despite widespread recognition of the cyber-attack threat and improved data protection methods. While we have invested in the protection of our information technology and maintain what we

believe are adequate security procedures and controls over financial and other individually identifiable customer, employee and vendor data provided to us, our business model is evolving rapidly and increasingly requires us to receive, retain and transmit certain information, including individually identifiable information, that our customers provide to purchase products or services, register on our websites, or otherwise communicate and interact with us. All of these risks are also applicable where we rely on outside vendors to provide services, which may operate in a cloud environment. We are dependent on these third party vendors to operate secure and reliable systems. A breach in our systems or those of our third party providers that results in the unauthorized release of individually identifiable customer or other sensitive data could have a material adverse effect on our reputation and lead to financial losses from remedial actions, loss of business or potential liability. An electronic security breach resulting in the unauthorized release of sensitive data from our information systems could also materially increase the costs we already incur to protect against such risks. While we also seek to obtain assurances that third parties we interact with will protect individually identifiable information, there is a risk that such data may be compromised. In addition, as the regulatory environment relating to a company's obligation to protect such sensitive data becomes more strict, a material failure on our part to comply with applicable regulations could subject us to fines or other regulatory sanctions and potentially to lawsuits.

We may experience losses or be subject to increased funding and expenses related to our pension plan. A decline in the market value of plan assets or a change in the interest rates used to measure the required minimum funding levels and the pension obligation may increase the funding requirements of our defined benefit pension plan, the pension obligation itself, and pension expenses. Government regulations may accelerate the timing and amounts required to fund the plan. Demographic changes in our workforce, including longer life expectancies, increased numbers of retirements, and age at retirement may also cause funding requirements, pension expenses, and the pension obligation to be higher than expected. Any or all of these factors could have a negative impact on our liquidity, financial position, and/or our results of operations.

We purchase all of the products we sell to our customers from other parties. As a wholesale distributor, our business and financial results are dependent on our ability to purchase products from manufacturers not controlled by us that we, in turn, sell to our customers. Approximately 50% of our purchases are made from only 25 manufacturers. A sustained disruption in our ability to source products from one or more of the largest of these vendors might have a material impact on our ability to fulfill customer orders, resulting in lost sales and, in rare cases, damages for late or non-delivery.

Our borrowing agreements contain financial covenants and certain other restrictions on our activities and those of our subsidiaries. Our amended revolving credit facility and private placement shelf agreements impose contractual limits on, among other things, indebtedness, liens, changes in the nature of business, investments, mergers and acquisitions, the issuance of equity securities, the disposition of assets and the dissolution of certain subsidiaries, transactions with affiliates, restricted payments (subject to incurrence tests, with certain exceptions), as well as securitizations and factoring transactions. In addition, we are required to maintain acceptable financial ratios relating to debt leverage and interest coverage. Our failure to comply with these obligations may cause an event of default and may trigger an acceleration of the debt owed to our creditors or limit our ability to obtain additional credit under these facilities. While we expect to remain in compliance with the terms of our amended revolving credit facility and private placement shelf agreements, our failure to do so could have a negative impact on our ability to borrow funds and maintain acceptable levels of cash flow from financing activities.

We are subject to legal proceedings and other claims arising out of the conduct of our business. These proceedings and claims relate to public and private sector transactions, product liability, contract performance, and employment matters. On the basis of information currently available to us, we do not believe that existing proceedings and claims will have a material impact on our financial position or results of operations. However, litigation is unpredictable, and we could incur judgments or enter into settlements for current or future claims that could adversely affect our financial position or our results of operations in a particular period.

More specifically, with respect to asbestos litigation, as of December 31, 2019, 3,398 individual cases and 67 multiple-plaintiff cases are pending that allege actual or potential asbestos-related injuries resulting from the use of or exposure to products allegedly sold by us. Additional claims will likely be filed against us in the future. Our insurance carriers have historically borne virtually all costs and liability with respect to this litigation and are continuing to do so. Accordingly, our future liability with respect to pending and unasserted claims is dependent on the continued solvency of our insurance carriers. Other factors that could impact this liability are: the number of future claims filed against us; the defense and settlement costs associated with these claims; changes in the litigation environment, including changes in federal or state law governing the compensation of asbestos claimants; adverse jury verdicts in excess of historic settlement amounts; and bankruptcies of other asbestos defendants. Because any of these factors may change, our future exposure is unpredictable, and it is possible that we may incur costs that would have a material adverse impact on our liquidity, financial position, or results of operations in future periods.

Compliance with changing government regulations may result in increased costs and risks to the company. Our public company and multi-national customers are increasingly subject to governmental regulation globally. Existing and future laws and regulations may impede our growth. These regulations and laws may cover, among other things, taxation, privacy, data protection,

pricing, content, copyrights, distribution, energy consumption, environmental regulation, electronic contracts, communications and marketing, consumer protection, the design and operation of websites, and the characteristics and quality of products and services. Unfavorable regulations and laws could diminish the demand for our products and services and increase our cost of doing business. If we are not able to obtain for certain customers the information that they require in part as a result of these regulations, they may limit their business with us. These regulatory and customer-driven requirements may increase our operating costs, and, due to competitive pressures, we may not be able to increase our prices sufficiently to avoid a reduction in our income from operations.

The value to our shareholders of our common stock depends on the regular payment of dividends, which are paid at the discretion of our Board of Directors. The purchase price for our common stock under our purchase option is the same as the issue price. Accordingly, as long as we exercise our option to purchase, appreciation in the value of an investment in our common stock is dependent primarily on our ability and our Board of Directors' willingness to declare dividends. Although cash dividends have been paid on the common stock each year since 1929, as with any corporation's common stock, payment of dividends is subject to the discretion of our Board of Directors.

There is no public trading market for our common stock. Our common stock is 100% owned by active and retired employees. Common stock may not be sold by the holder thereof, except after first offering it to us. We have always exercised this purchase option in the past and expect to continue to do so. As a result, no public trading market for our common stock exists, nor is one expected to develop. This lack of a public trading market for our common stock may limit our ability to raise large amounts of equity capital, which could constrain our long-term business growth.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We operate in thirteen geographical districts in the U.S., each of which maintains multiple distribution facilities that consist primarily of warehouse space. A small portion of each distribution facility is used for offices. Some districts have sales offices that do not carry an inventory of products. The number of facilities, excluding the nineteen regional distribution centers, in a district varies from ten to twenty-two and totals 218 for all districts. The facilities range in size from 800 to 136,000 square feet, with the average being approximately 30,000 square feet. We own 116 of these facilities and lease 102 of them for varying terms, with the majority having a remaining lease term of less than five years.

We also have nineteen regional distribution centers ranging in size from 130,000 to 300,000 square feet. Ten of the nineteen regional distribution centers are owned and the other nine are leased. The remaining lease terms on the leased regional distribution centers are between two and nine years.

We also have two U.S. subsidiaries with seven owned facilities and twelve leased distribution facilities. The leased facilities have remaining lease terms between one and nine years. The facilities range in size from 5,000 to 42,000 square feet.

We maintain thirty-one distribution facilities in Canada, of which nineteen are owned and twelve are leased. The majority of the leased facilities have a remaining lease term of less than five years. The facilities range in size from 5,000 to 89,000 square feet. We have a 33,000 square foot facility in Puerto Rico, the lease on which expires in 2023.

Our headquarters are located in St. Louis, Missouri in an 83,000 square foot building owned by us. We also own a 200,000 square foot operations and administration center in St. Louis.

Item 3. Legal Proceedings

There are presently no pending legal proceedings that are expected to have a material impact on the Company or its subsidiaries.

Item 4. Mine Safety Disclosures

Not applicable.

Supplemental Item. Executive Officers of the Registrant

The following table lists the name, age as of March 1, 2020, position, offices and certain other information with respect to our executive officers. The term of office of each executive officer will expire upon the appointment of his or her successor by the Board of Directors.

Name	Age	Business experience last five years
S. S. Clifford	49	Senior Vice President and Chief Financial Officer, June 2019 to present; Senior Vice President - Supply Chain Management, February 2015 to May 2019; Vice President - Chief Information Officer, April 2010 to January 2015.
M. W. Geekie	58	Senior Vice President, Secretary and General Counsel, August 2008 to present.
R. R. Harwood	63	Senior Vice President and Chief Strategy Officer, June 2019 to present; Senior Vice President and Chief Financial Officer, January 2013 to May 2019.
W. P. Mansfield	57	Senior Vice President - Marketing, May 2017 to present; Senior Vice President - Sales and Marketing, April 2014 to April 2017.
D. G. Maxwell	61	Senior Vice President - Sales, May 2017 to present; Regional Vice President, January 2015 to April 2017.
K. M. Mazzarella	59	Chairman of the Board, January 2013 to present; President and Chief Executive Officer, June 2012 to present.
B. L. Propst	50	Senior Vice President – Human Resources, June 2009 to present.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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. A new Voting Trust Agreement was established effective March 3, 2017, which expires by its terms on March 1, 2027. At December 31, 2019, approximately 83% of our outstanding 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. 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.

The following table sets forth information regarding purchases of common stock by the Company for the three months ended December 31, 2019, 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
October 1 to October 31, 2019	98,411	\$20.00	N/A
November 1 to November 30, 2019	34,617	\$20.00	N/A
December 1 to December 31, 2019	62,700	\$20.00	N/A
Total	195,728	\$20.00	N/A

Capital Stock at December 31, 2019

Title of Class	Number of	
	Security Holders	Number of Shares
Voting Trust Interests issued with respect to Common Stock	5,254	18,621,512
Common Stock	1,812	3,853,011
Total	7,066	22,474,523

Dividend Data (in dollars per share)	Year Ended December 31,	
Period	2019	2018
First Quarter	\$ 0.30	\$ 0.30
Second Quarter	0.30	0.30
Third Quarter	0.30	0.30
Fourth Quarter	4.10	1.50
Total	\$ 5.00	\$ 2.40

On December 12, 2019, our Board of Directors declared a 5% stock dividend to shareholders of record on December 16, 2019. Shares representing this dividend were issued on February 7, 2020.

On December 13, 2018, our Board of Directors declared a 10% stock dividend to shareholders of record on December 17, 2018. Shares representing this dividend were issued on February 1, 2019.

Item 6. Selected Financial Data

This summary should be read in conjunction with the accompanying consolidated financial statements and the notes to the consolidated financial statements included in Item 8., “Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K.

Five Year Summary of Selected Consolidated Financial Data (Stated in millions, except for per share data)

For the Years Ended December 31,	2019	2018	2017	2016	2015
Gross Sales	\$ 7,559.7	\$ 7,235.7	\$ 6,662.4	\$ 6,413.2	\$ 6,136.3
Cash Discounts	(35.8)	(33.2)	(31.2)	(28.2)	(26.0)
Net Sales	\$ 7,523.9	\$ 7,202.5	\$ 6,631.2	\$ 6,385.0	\$ 6,110.3
Gross Margin	\$ 1,429.0	\$ 1,380.9	\$ 1,261.3	\$ 1,208.4	\$ 1,154.7
Net Income attributable to Graybar Electric Company, Inc.	\$ 144.5	\$ 143.3	\$ 71.6	\$ 93.1	\$ 91.1
Average common shares outstanding ^(A)	22.6	22.5	22.4	22.1	21.8
Net Income attributable to Graybar Electric Company, Inc. per share of Common Stock ^(A)	\$ 6.41	\$ 6.37	\$ 3.20	\$ 4.21	\$ 4.17
Cash Dividends per share of Common Stock	\$ 5.00	\$ 2.40	\$ 2.00	\$ 3.00	\$ 3.00
Total Assets	\$ 2,517.7	\$ 2,491.2	\$ 2,261.4	\$ 2,099.2	\$ 2,049.5
Total Liabilities	\$ 1,619.9	\$ 1,620.7	\$ 1,499.8	\$ 1,368.3	\$ 1,361.4
Shareholders' Equity	\$ 897.8	\$ 870.5	\$ 761.6	\$ 730.9	\$ 688.1
Working Capital ^{(B)(C)}	\$ 583.7	\$ 542.0	\$ 486.7	\$ 432.4	\$ 436.7
Long-term Debt	\$ 7.8	\$ 10.0	\$ 7.0	\$ 7.3	\$ 10.3

^(A)All periods adjusted for the declaration of a 5% stock dividend declared December 2019, a 10% stock dividend declared in December 2018, a 10% stock dividend declared in December 2017, a 5% stock dividend declared in December 2016, and a 2.5% stock dividend declared in December 2015. Prior to these adjustments, the average common shares outstanding for the years ended December 31, 2018, 2017, 2016, and 2015 were 21.4 million shares, 19.4 million shares, 17.4 million shares, and 16.4 million shares, respectively.

^(B)All periods adjusted for certain balance sheet reclassifications to conform to the December 31, 2019 presentation.

^(C)Working capital is defined as total current assets less total current liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis provides a narrative description of the Company's results of operations, financial condition, liquidity, and cash flows for the years ended December 31, 2019 and 2018. This discussion should be read in conjunction with the accompanying consolidated financial statements and the notes to the consolidated financial statements included in Item 8., “Financial Statements and Supplementary Data”, of this Annual Report on Form 10-K. For comparison of the results of operations relating to the years ended December 31, 2018 and 2017, refer to our Annual Report on Form 10-K, Part II., Item 7. filed with the SEC on March 13, 2019.

Business Overview

We set records for net sales, gross margin, and net income of the Company for the year ended December 31, 2019. Our 2019 net sales totaled \$7,523.9 million, an increase of \$321.4 million, or 4.5%, compared to net sales of \$7,202.5 million for the year ended December 31, 2018. In 2019, net sales in our construction, CIG, and industrial & utility verticals increased 5.2%, 3.4%, and 3.4%, respectively. We believe our continued investments in people, technology and service innovation contributed significantly to our strong sales performance for 2019.

Gross margin increased \$48.1 million, or 3.5%, to \$1,429.0 million for the year ended December 31, 2019, when compared to gross margin of \$1,380.9 million for the same twelve-month period last year. Gross margin rate was 19.0% for the year ended December 31, 2019, compared to 19.2% at December 31, 2018. The decrease in gross margin rate was primarily due to a decrease in our vendor allowances as a result of better inventory management.

Net income attributable to Graybar Electric Company, Inc. for the year ended December 31, 2019 was \$144.5 million, which was \$1.2 million, or 0.8%, higher than net income attributable to Graybar Electric Company, Inc. of \$143.3 million for the year ended December 31, 2018.

We achieved positive results in 2019 by investing in the people, services and technology to grow our business and improve our productivity. We believe these investments contributed to our strong performance last year and will also serve as foundational building blocks for success in the years to come. As we work to transform our company for the future, we remain focused on providing an exceptional customer experience, boosting efficiency in the supply chain and inspiring a culture of innovation, agility and growth throughout the company.

Consolidated Results of Operations

The following table sets forth certain information relating to our operations stated in millions of dollars and as a percentage of net sales for the years ended December 31, 2019, 2018, and 2017:

	2019		2018		2017	
	Dollars	Percent of Net Sales	Dollars	Percent of Net Sales	Dollars	Percent of Net Sales
Net Sales	\$ 7,523.9	100.0 %	\$ 7,202.5	100.0 %	\$ 6,631.2	100.0 %
Cost of merchandise sold	(6,094.9)	(81.0)	(5,821.6)	(80.8)	(5,369.9)	(81.0)
Gross Margin	1,429.0	19.0	1,380.9	19.2	1,261.3	19.0
Selling, general and administrative expenses	(1,159.9)	(15.4)	(1,125.0)	(15.6)	(1,026.6)	(15.5)
Depreciation and amortization	(50.5)	(0.7)	(49.6)	(0.7)	(48.9)	(0.7)
Other income, net	5.0	0.1	3.4	—	6.5	0.1
Income from Operations	223.6	3.0	209.7	2.9	192.3	2.9
Non-operating expenses	(23.7)	(0.3)	(30.6)	(0.4)	(24.8)	(0.4)
Income before Provision for Income Taxes	199.9	2.7	179.1	2.5	167.5	2.5
Provision for income taxes	(55.0)	(0.7)	(35.4)	(0.5)	(95.6)	(1.4)
Net Income	144.9	2.0	143.7	2.0	71.9	1.1
Net income attributable to noncontrolling interests	(0.4)	—	(0.4)	—	(0.3)	—
Net Income attributable to Graybar Electric Company, Inc.	\$ 144.5	2.0 %	\$ 143.3	2.0 %	\$ 71.6	1.1 %

2019 Compared to 2018

Net sales totaled \$7,523.9 million for the year ended December 31, 2019, compared to \$7,202.5 million for the year ended December 31, 2018, an increase of \$321.4 million, or 4.5%. For the year ended December 31, 2019, net sales in our construction, CIG, and industrial & utility verticals increased by 5.2%, 3.4%, and 3.4%, respectively, compared to the year ended December 31, 2018.

Gross margin increased \$48.1 million, or 3.5%, to \$1,429.0 million for the year ended December 31, 2019, from \$1,380.9 million for the year ended December 31, 2018. The increase resulted from higher net sales for the year ended December 31, 2019, compared to the year ended December 31, 2018. Our gross margin rate was 19.0% for the year ended December 31, 2019, compared to 19.2% for the year ended December 31, 2018. The decrease in gross margin rate was primarily due to a decrease in vendor allowances as a result of better inventory management.

Selling, general and administrative ("SG&A") expenses increased \$34.9 million, or 3.1%, to \$1,159.9 million for the year ended December 31, 2019, compared to \$1,125.0 million for the year ended December 31, 2018, mainly due to higher salary expenses, higher information technology expenses, and higher bad debt expenses for the year ended December 31, 2019. SG&A expenses as a percentage of net sales were 15.4% for the year ended December 31, 2019, compared to 15.6% for the year ended December 31, 2018.

Depreciation and amortization for the year ended December 31, 2019, increased \$0.9 million, or 1.8%, to \$50.5 million from \$49.6 million for the year ended December 31, 2018. This increase was primarily due to an increase in property, at cost. Total property, at cost, at December 31, 2019 was \$1,022.4 million, an increase of \$33.1 million, or 3.3%, when compared to total property,

at cost, at December 31, 2018 of \$989.3 million. Depreciation as a percentage of net sales remained consistent at 0.7% for the years ended December 31, 2019 and 2018.

Other income, net totaled \$5.0 million for the year ended December 31, 2019, compared to \$3.4 million for the year ended December 31, 2018. Other income, net consists primarily of gains or losses on the disposal of property, trade receivable interest charges to customers, and other miscellaneous income items related to our business activities. The increase in other income, net was primarily due to net gains on disposal of assets in 2019.

Non-operating expenses decreased \$6.9 million, or 22.5%, to \$23.7 million for the year ended December 31, 2019, from \$30.6 million for the year ended December 31, 2018. The decrease was due to decreases in non-service cost components of net periodic benefit costs of \$7.2 million and interest expense, net of \$1.4 million offset by an increase in other post employment benefits expenses of \$1.7 million for the year ended December 31, 2019, compared to the year ended December 31, 2018. The decrease in interest expense, net was primarily due to lower levels of average outstanding short-term borrowings for the year ended December 31, 2019, compared to the year ended December 31, 2018.

Income before provision for income taxes increased \$20.8 million, or 11.6%, to \$199.9 million for the year ended December 31, 2019, compared to \$179.1 million for the year ended December 31, 2018. The increase was primarily due to our growth in gross margin outpacing our increases in SG&A expenses and depreciation and amortization.

Our provision for income taxes increased \$19.6 million, or 55.4%, to \$55.0 million for the year ended December 31, 2019 from \$35.4 million for the year ended December 31, 2018. Our effective tax rate was 27.5% for the year ended December 31, 2019, up from 19.8% for the year ended December 31, 2018. The increase in the effective tax rate reflects a normalization after certain one-time effects of the Tax Cuts and Jobs Act ("TCJA"), finalized under Staff Accounting Bulletin No. 118, were included in the 2018 and 2017 results.

Net income attributable to Graybar Electric Company, Inc. for the year ended December 31, 2019 increased \$1.2 million, or 0.8%, to \$144.5 million from \$143.3 million for the year ended December 31, 2018.

Financial Condition and Liquidity

Summary

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 and short-term bank lines of credit.

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for each of the past three years:

Total cash provided by (used in):	2019	2018	2017
Operating Activities	\$ 249.4	\$ 42.1	\$ 45.1
Investing Activities	(39.4)	(42.3)	(39.1)
Financing Activities	(208.1)	16.3	(6.5)
Net Increase (Decrease) in Cash	\$ 1.9	\$ 16.1	\$ (0.5)

Our cash was \$60.8 million at December 31, 2019, an increase of \$1.9 million, or 3.2%, from \$58.9 million at December 31, 2018. As a result of the improvement in our cash collection efforts related to trade receivables and improvements in our merchandise inventory management, we were able to pay down our short-term borrowings by \$97.0 million, or 41.3% to \$138.0 million at December 31, 2019 from \$235.0 million at December 31, 2018. Current assets exceeded current liabilities by \$583.7 million at December 31, 2019, an increase of \$41.7 million, or 7.7%, from \$542.0 million at December 31, 2018 due to the decrease in short-term borrowings.

Operating Activities

Cash flows provided by operating activities for the year ended December 31, 2019 was \$249.4 million, compared to cash provided by operating activities of \$42.1 million for the year ended December 31, 2018. Cash provided by operations for the year ended December 31, 2019, was attributable to net income of \$144.9 million adjusted for non-cash depreciation and amortization expenses of \$50.5 million and non-cash lease operating expense of \$30.1 million, and an increase in collections of trade receivables of \$92.2 million, partially offset by a decrease in trade accounts payable of \$62.8 million.

The average number of days of sales in trade receivables for the year ended December 31, 2019 improved significantly compared to the same twelve-month period in 2018 due to better collection results. The days in inventory improved significantly for the year ended December 31, 2019 compared to the year ended December 31, 2018 due to improved inventory management.

Investing Activities

Net cash used by investing activities was \$39.4 million for the year ended December 31, 2019, compared to \$42.3 million for the year ended December 31, 2018, an improvement of \$2.9 million, or 6.9%. The decrease was due to higher proceeds from disposal of assets of \$3.7 million for the year ended December 31, 2019, compared to \$0.7 million for the year ended December 31, 2018. Capital expenditures remained relatively consistent year over year.

Financing Activities

Net cash used by financing activities totaled \$208.1 million for the year ended December 31, 2019, compared to net cash provided by financing activities of \$16.3 million for the year ended December 31, 2018, an increase in cash used of \$224.4 million. This was primarily due to payments made on the short-term borrowings of \$97.0 million and cash paid for dividends during the year ended December 31, 2019, compared to the same period in 2018. Cash dividends paid totaled \$107.2 million, or \$5.00 per share, for the year ended December 31, 2019, compared to \$46.9 million, or \$2.40 per share, for the year ended December 31, 2018.

Liquidity

We had a \$750.0 million amended revolving credit facility with \$611.5 million in available capacity at December 31, 2019, compared to available capacity of \$515.0 million at December 31, 2018. At December 31, 2019 and 2018, we also had two uncommitted \$100.0 million private placement shelf agreements ("Shelf Agreements"). One 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. Our other Shelf Agreement 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 August 2021.

We have not issued any notes under the Shelf Agreements as of December 31, 2019 and 2018. For further discussion related to our revolving credit facility and our Shelf Agreements, refer to Note 12, "Debt", of the notes to the consolidated financial statements located in Item 8., "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K.

We had short-term borrowings of \$138.0 million and \$235.0 million outstanding at December 31, 2019 and 2018, respectively. We had total letters of credit of \$5.6 million outstanding at December 31, 2019, of which \$0.5 million were issued under our amended revolving credit facility. We had total letters of credit of \$5.6 million outstanding at December 31, 2018, of which none were issued under our amended revolving credit facility. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

Contractual Obligations and Commitments

We had the following contractual obligations as of December 31, 2019:

Payments due by period						
Contractual obligations	Total	2020	2021 and 2022	2023 and 2024	After 2024	
Finance lease obligations	\$ 12.0	\$ 2.7	\$ 4.8	\$ 2.8	\$ 1.7	
Operating lease obligations	135.8	32.2	53.0	31.6	19.0	
Purchase obligations	876.5	876.5	—	—	—	
Other obligations	1.8	1.8	—	—	—	
Total	\$ 1,026.1	\$ 913.2	\$ 57.8	\$ 34.4	\$ 20.7	

Finance and operating lease obligations consist of both principal and interest payments. There were no long-term debt obligations, other than finance lease obligations, at December 31, 2019.

Purchase obligations consist of open purchase orders issued in the normal course of business. Many of these purchase obligations may be cancelled with limited or no financial penalties.

The table above does not include \$166.7 million of accrued, unfunded pension obligations, \$84.8 million of accrued, unfunded employment-related benefit obligations, of which \$76.2 million is related to our postretirement benefit plan, and \$1.9 million in contingent payments for uncertain tax positions because it is not certain when these obligations will be settled or paid.

We expect to make contributions totaling approximately \$40.0 million to our defined benefit pension plan and fund \$1.8 million for nonqualified pension benefits during 2020 that are not included in the table. We contributed \$10.0 million to our defined benefit pension plan and funded \$1.7 million for nonqualified benefits in 2019.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"). In connection with the preparation of our financial statements we are required to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our estimates, assumptions and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, estimates, assumptions, and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our estimates and assumptions, and such differences could be material.

Our significant accounting policies are discussed in Note 2, "Summary of Significant Accounting Policies", of the notes to the consolidated financial statements located in Item 8., "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board.

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. 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 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. We assess uncertainty regarding tax positions taken in previously filed returns and record reserves in accordance with the guidance under Accounting Standards Codification 740-10, "Accounting for Uncertainty in Income Taxes".

Merchandise Inventory

We value our inventories 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. In assessing the ultimate realization of inventories, we make judgments as to our return rights to suppliers and future demand requirements and record an inventory reserve for obsolete inventory. If actual future demand, market conditions, or supplier return provisions are less favorable than those projected by management, additional inventory write-downs may be required. For the years ended December 31, 2019, 2018 and 2017, there were no material differences between our estimated reserve levels and actual write-offs.

Pension and Postretirement Benefits Plans

We account for our pension and postretirement benefit obligations in accordance with the accounting standards for defined benefit pension and other postretirement plans. These standards require the use of several important assumptions, including the discount rate and expected long-term rate of return on plan assets, among others, in determining our obligations and the annual cost of our pension and postretirement benefits. These assumptions are assessed annually in consultation with independent actuaries and investment advisors as of December 31 and adjustments are made as needed.

The following table presents key assumptions used to measure the pension and postretirement benefits obligations at December 31:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	2019	2018	2019	2018
Discount rate	3.38%	4.31%	3.19%	4.16%
Expected return on plan assets	5.75%	5.75%	—	—

To determine the long-term expected rate of return, we consider macroeconomic conditions, the historical experience and expected future long-term performance of the plan assets, as well as the current and expected allocation of the plan assets. The pension plan’s asset allocation as of December 31, 2019, was approximately 73% fixed income investments, 15% equity securities and 12% other investments, in line with our policy ranges. We periodically evaluate the allocation of plan assets among the different investment classes to ensure that they are within policy guidelines and ranges. Holding all other assumptions constant, we estimate that a one percentage point decrease in the expected return on plan assets would have increased our 2019 pension expense by approximately \$6.1 million. Our expected long-term rate of return on plan assets assumption will decrease to 5.50% for fiscal year 2020.

In determining the discount rate, we use yields on high-quality fixed-income investments (including among other things, Moody’s Aa corporate bond yields) that match the duration and expected cash flows of the future pension obligations. To the extent the discount rate increases or decreases, our pension and postretirement obligations are decreased or increased accordingly. Holding all other assumptions constant, we estimate that a one percentage point decrease in the discount rate used to calculate both pension expense for 2019 and the pension liability as of December 31, 2019 would have increased pension expense by \$8.1 million and the pension liability by \$96.9 million. Similarly, a one percentage point decrease in the discount rate would have increased postretirement benefits expense by \$0.1 million and the December 31, 2019 postretirement benefits liability by \$5.8 million.

New Accounting Standards

New accounting standards are discussed in Note 2, "Summary of Significant Accounting Policies", of the notes to the consolidated financial statements located in Item 8., "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, including commodity prices, foreign currency exchange rates, interest rates, and equity prices. Our primary exposures to market risk are commodity price risk, foreign currency exchange rate risk, and interest rate risk associated with debt obligations.

Commodity Price Risk

We have exposure to commodity price risk on products we purchase for resale. Examples of such products include wire and cable, conduit, enclosures, and fittings.

Foreign Currency Exchange Rate Risk

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 year-end and its income and expenses are translated using average exchange rates prevailing during the year. Currency translation adjustments are included in accumulated other comprehensive loss. Exposure to foreign currency exchange rate fluctuations is not material.

Interest Rate Risk

Our interest expense is sensitive to changes in the general level of market interest rates. Changes in interest rates have different impacts on the fixed-rate and variable-rate portions of our debt portfolio. A change in market interest rates on the fixed-rate portion of our debt portfolio impacts the fair value of the financial instrument, but has no impact on interest incurred or cash flows. A change in market interest rates on the variable-rate portion of our debt portfolio impacts the interest incurred and cash flows, but does not impact the fair value of the financial instrument.

Based on \$138.0 million in variable-rate debt outstanding at December 31, 2019, a one percentage point increase in interest rates would increase our interest expense by \$1.4 million per year.

The following table provides information about financial instruments that are sensitive to changes in interest rates. The table presents principal payments on debt and related weighted-average interest rates by expected maturity dates:

Debt Instruments							<u>December 31, 2019</u>	
	2020	2021	2022	2023	2024	After 2024	Total	Fair Value
Long-term, fixed-rate debt	\$ 3.8	\$ 2.3	\$ 1.7	\$ 1.2	\$ 1.1	\$ 1.5	\$ 11.6	\$ 10.2
Weighted-average interest rate	4.60 %	5.11 %	5.66 %	6.86 %	7.49 %	10.54 %		
Short-term, variable-rate borrowings	\$ 138.0	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 138.0	\$ 138.0
Weighted-average interest rate	2.78 %							

The fair value of long-term debt is estimated by calculating future cash flows at interpolated Treasury yields with similar maturities, plus an estimate of our credit risk spread as of December 31, 2019.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS:

For additional information related to risks associated with our future performance, see Part I, "Caution Regarding Forward-looking Statements" above and Item 1A. Risk Factors of this Form 10-K.

Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Graybar Electric Company, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Graybar Electric Company, Inc. and Subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1996.

St. Louis, Missouri

March 12, 2020

Graybar Electric Company, Inc. and Subsidiaries
Consolidated Statements of Income

	For the Years Ended December 31,		
	2019	2018	2017
<i>(Stated in millions, except per share data)</i>			
Net Sales	\$ 7,523.9	\$ 7,202.5	\$ 6,631.2
Cost of merchandise sold	(6,094.9)	(5,821.6)	(5,369.9)
Gross Margin	1,429.0	1,380.9	1,261.3
Selling, general and administrative expenses	(1,159.9)	(1,125.0)	(1,026.6)
Depreciation and amortization	(50.5)	(49.6)	(48.9)
Other income, net	5.0	3.4	6.5
Income from Operations	223.6	209.7	192.3
Non-operating expenses	(23.7)	(30.6)	(24.8)
Income before Provision for Income Taxes	199.9	179.1	167.5
Provision for income taxes	(55.0)	(35.4)	(95.6)
Net Income	144.9	143.7	71.9
Net income attributable to noncontrolling interests	(0.4)	(0.4)	(0.3)
Net Income attributable to Graybar Electric Company, Inc.	\$ 144.5	\$ 143.3	\$ 71.6
Net Income attributable to Graybar Electric Company, Inc.			
per share of Common Stock^(A)	\$ 6.41	\$ 6.37	\$ 3.20

^(A)Adjusted for the declaration of a 5% stock dividend in December 2019, shares related to which were issued in February 2020. Prior to the adjustment, the average common shares outstanding were 21.4 million shares and 21.3 million shares for the years ended December 31, 2018 and 2017, respectively.

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

Graybar Electric Company, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

<i>(Stated in millions)</i>	For the Years Ended December 31,		
	2019	2018	2017
Net Income	\$ 144.9	\$ 143.7	\$ 71.9
Other Comprehensive Income			
Foreign currency translation	4.8	(8.1)	5.9
Pension and postretirement benefits liability adjustment (net of tax of \$5.2, \$(6.1), and \$10.0, respectively)	(15.0)	17.6	(15.7)
Total Other Comprehensive (Loss) Income	(10.2)	9.5	(9.8)
Comprehensive Income	\$ 134.7	\$ 153.2	\$ 62.1
Less: comprehensive income attributable to noncontrolling interests, net of tax	0.5	0.1	0.5
Comprehensive Income attributable to Graybar Electric Company, Inc.	\$ 134.2	\$ 153.1	\$ 61.6

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

Graybar Electric Company, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
	2019	2018
<i>(Stated in millions, except share and per share data)</i>		
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 60.8	\$ 58.9
Trade receivables (less allowances of \$6.2 and \$5.9, respectively)	1,096.6	1,187.0
Merchandise inventory	654.2	658.7
Other current assets	51.7	54.1
Total Current Assets	1,863.3	1,958.7
Property, at cost		
Land	79.6	79.4
Buildings	505.5	489.2
Furniture and fixtures	250.4	233.0
Software	168.6	166.4
Finance leases	18.3	21.3
Total Property, at cost	1,022.4	989.3
Less – accumulated depreciation and amortization	(597.2)	(565.4)
Net Property	425.2	423.9
Operating Lease Right-of-use Assets	117.5	—
Other Non-current Assets	111.7	108.6
Total Assets	\$ 2,517.7	\$ 2,491.2
LIABILITIES		
Current Liabilities		
Short-term borrowings	\$ 138.0	\$ 235.0
Current portion of long-term debt	3.8	3.4
Trade accounts payable	832.3	895.2
Accrued payroll and benefit costs	151.1	158.2
Other accrued taxes	24.7	23.9
Current operating lease liabilities	28.6	—
Other current liabilities	101.1	101.0
Total Current Liabilities	1,279.6	1,416.7
Postretirement Benefits Liability	69.4	66.7
Pension Liability	164.6	118.6
Long-term Debt	7.8	10.0
Non-current Operating Lease Liabilities	96.2	—
Other Non-current Liabilities	2.3	8.7
Total Liabilities	1,619.9	1,620.7
SHAREHOLDERS' EQUITY		
	Shares at December 31,	
	2019	2018
Capital Stock		
Common, stated value \$20.00 per share		
Authorized	50,000,000	50,000,000
Issued to voting trustees	18,665,064	17,754,923
Issued to shareholders	3,872,159	3,744,318
In treasury, at cost	(62,700)	(58,172)
Outstanding Common Stock	22,474,523	21,441,069
Common shares subscribed	997,275	958,439
Less subscriptions receivable	(997,275)	(958,439)
Retained Earnings	694.0	678.1
Accumulated Other Comprehensive Loss	(250.6)	(240.3)
Total Graybar Electric Company, Inc. Shareholders' Equity	892.9	866.6
Noncontrolling Interests	4.9	3.9
Total Shareholders' Equity	897.8	870.5
Total Liabilities and Shareholders' Equity	\$ 2,517.7	\$ 2,491.2

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

Graybar Electric Company, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

<i>(Stated in millions)</i>	For the Years Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities			
Net Income	\$ 144.9	\$ 143.7	\$ 71.9
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	50.5	49.6	48.9
Non-cash operating lease expense	30.1	—	—
Deferred income taxes	(3.7)	3.4	14.2
Net gains on disposal of assets	(1.5)	—	(0.1)
Losses on impairment of assets	0.3	0.3	—
Net income attributable to noncontrolling interests	(0.4)	(0.4)	(0.3)
Changes in assets and liabilities:			
Trade receivables	92.2	(125.4)	(97.5)
Merchandise inventory	4.5	(101.9)	(63.8)
Other current assets	2.4	2.1	(10.9)
Other non-current assets	(1.7)	(9.0)	(0.5)
Trade accounts payable	(62.8)	59.7	83.3
Accrued payroll and benefit costs	(7.1)	38.8	(2.1)
Other current liabilities	5.8	5.6	13.3
Other non-current liabilities	(4.1)	(24.4)	(11.3)
Total adjustments to net income	104.5	(101.6)	(26.8)
Net cash provided by operating activities	249.4	42.1	45.1
Cash Flows from Investing Activities			
Proceeds from disposal of assets	3.7	0.7	2.2
Capital expenditures for property	(43.1)	(43.0)	(41.3)
Net cash used by investing activities	(39.4)	(42.3)	(39.1)
Cash Flows from Financing Activities			
Net (decrease) increase in short-term borrowings	(97.0)	65.4	29.1
Principal payments under finance arrangements	(3.7)	(4.0)	(4.2)
Sales of common stock	18.5	17.8	17.4
Purchases of common stock	(19.2)	(15.7)	(13.7)
Sales of noncontrolling interests' common stock	0.8	—	0.6
Purchases of noncontrolling interests' common stock	(0.3)	(0.3)	(0.3)
Dividends paid	(107.2)	(46.9)	(35.4)
Net cash (used) provided by financing activities	(208.1)	16.3	(6.5)
Net Increase (Decrease) in Cash	1.9	16.1	(0.5)
Cash, Beginning of Year	58.9	42.8	43.3
Cash, End of Year	\$ 60.8	\$ 58.9	\$ 42.8
Supplemental Cash Flow Information:			
Non-cash Investing and Financing Activities:			
Acquisitions of equipment under finance leases	\$ 2.0	\$ 3.1	\$ 1.9
Acquisitions of assets under operating leases	\$ 55.9	\$ —	\$ —
Acquisition of software and maintenance under financing arrangement	\$ —	\$ 5.0	\$ —
Cash Paid During the Year for:			
Interest, net of amounts capitalized	\$ 6.1	\$ 6.3	\$ 4.2
Income taxes, net of refunds	\$ 60.7	\$ 38.3	\$ 78.4

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

Graybar Electric Company, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity

Graybar Electric Company, Inc. Shareholders' Equity					
<i>(Stated in millions)</i>	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity
Balance, December 31, 2016	\$ 348.8	\$ 575.4	\$ (196.6)	\$ 3.3	\$ 730.9
Net income		71.6		0.3	71.9
Other comprehensive (loss) income			(10.0)	0.2	(9.8)
Adoption of ASU 2018-02		43.5	(43.5)		—
Stock issued	17.4			0.6	18.0
Stock purchased	(13.7)			(0.3)	(14.0)
Dividends declared	35.2	(70.6)			(35.4)
Balance, December 31, 2017	\$ 387.7	\$ 619.9	\$ (250.1)	\$ 4.1	\$ 761.6
Net income		143.3		0.4	143.7
Other comprehensive income (loss)			9.8	(0.3)	9.5
Adoption of ASC 606, net of tax		0.8			0.8
Stock issued	17.8				17.8
Stock purchased	(15.7)			(0.3)	(16.0)
Dividends declared	39.0	(85.9)			(46.9)
Balance, December 31, 2018	\$ 428.8	\$ 678.1	\$ (240.3)	\$ 3.9	\$ 870.5
Net income		144.5		0.4	144.9
Other comprehensive (loss) income			(10.3)	0.1	(10.2)
Stock issued	18.5			0.8	19.3
Stock purchased	(19.2)			(0.3)	(19.5)
Dividends declared	21.4	(128.6)			(107.2)
Balance, December 31, 2019	\$ 449.5	\$ 694.0	\$ (250.6)	\$ 4.9	\$ 897.8

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

Graybar Electric Company, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
as of December 31, 2019 and 2018 and
for the Years Ended December 31, 2019, 2018, and 2017
(Stated in millions, except share and per share data)

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, commercial, institutional and government ("CIG"), and industrial & utility 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.

Principles of Consolidation

The 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.

Subsequent Events

We have evaluated subsequent events through the time of the filing of this Annual Report on Form 10-K with the Commission. No material subsequent events have occurred since December 31, 2019 that require recognition or disclosure in our financial statements.

Revenue Recognition

Sales revenue is recognized when performance obligations are satisfied, which is typically upon delivery of the product 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 warehouse 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. Such service revenue represented less than 1% of gross sales for the years ended December 31, 2019, 2018, and 2017. Revenue is reported net of all taxes, primarily sales tax, assessed by governmental authorities as a result of revenue-producing transactions.

Outgoing Freight Expenses

We record 95% of outgoing freight expenses as a component of selling, general and administrative expenses. Total outgoing freight expenses were \$68.5 million, \$65.7 million, and \$57.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

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 our performance under the agreements and the amounts that 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 are secured 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 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 using 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. 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 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. We assess uncertainty regarding tax positions taken in previously filed returns and record reserves in accordance with the guidance under Accounting Standards Codification ("ASC") 740-10, "Accounting for Uncertainty in Income Taxes".

Other Postretirement Benefits

We account for postretirement benefits other than pension benefits 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 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 consolidated balance sheets reflect the funded status of the defined benefit pension plan.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current operating lease liabilities, and non-current operating lease liabilities on our consolidated balance sheets. Amounts related to finance leases are included in property and equipment, current portion of long-term debt, and long-term debt on our consolidated balance sheets. ROU assets and lease liabilities are recognized and measured on the date the underlying asset is made available to us.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. We use our incremental borrowing rate based on the information available at

the commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

For certain leases, such as real estate and information technology (IT) equipment, we account for the lease and non-lease components as a single lease component. For all other leases, we account for the lease and non-lease components separately. We have elected as an accounting policy not to apply the recognition requirements for short-term leases. Therefore, leases with a term of twelve months or less are not recorded on the consolidated balance sheets. Lease expenses associated with short-term leases are immaterial and are recorded in the consolidated statements of income in selling, general and administrative expenses. Additionally, for certain vehicle leases, we apply a portfolio approach to account for the operating lease ROU assets and liabilities.

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 2019 have had or are expected to have a material impact on our 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. As a result of the adoption, the financial statement line previously entitled "interest expense, net" was changed to "non-operating expenses". The impact to the operating results for the year ended December 31, 2017 within the consolidated statements of income as a result of adopting ASU 2017-07 is presented in the tables below:

Consolidated Statements of Income

	Year Ended December 31, 2017		
	As Reported	Reclassification	As Adjusted
Selling, general and administrative expenses	\$ 1,047.2	\$ (20.6)	\$ 1,026.6
Non-operating expenses	4.2	20.6	24.8

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

On January 1, 2019, we adopted ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). See Note 7, "Leases", for further information.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which introduces new guidance for the accounting for credit losses on certain financial instruments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We have determined that our trade receivables are financial instruments subject to this Update. We have evaluated the accounting policies applicable to our allowance for doubtful accounts and have developed new methods to include three components into our allowance to comply with requirements of the ASU: 1) a reserve derived from historical loss rates based upon the aging of our trade receivables, 2) a reserve based upon specifically-identified trade receivables in our portfolio that are considered higher risk based on current conditions, and 3) an additional reserve, as necessary, to consider the impact of future economic conditions. We currently believe that the adoption of this Update will not have a material impact on our consolidated financial statements and will adopt this Update beginning on January 1, 2020.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13") that makes minor changes to the disclosure requirements on

fair value measurements in Topic 820. The guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and adds new disclosure requirements that the FASB considers pertinent. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The adoption of this Update will not have a material impact on our consolidated financial statements. We will adopt this Update beginning on January 1, 2020.

In August 2018, the FASB issued ASU 2018-14, "Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14") that makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. The guidance eliminates requirements for certain disclosures that are no longer considered cost beneficial and adds new disclosure requirements that the FASB considers pertinent. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 for public entities. Early adoption is permitted. We are currently evaluating the impact of the adoption of the Update on our consolidated financial statements, but do not expect it to have a material impact. We plan to adopt this Update beginning on January 1, 2021.

In August 2018, the FASB issued ASU 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU 2018-15") requiring a customer in a cloud computing arrangement that is a service contract to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years for public entities. Early adoption is permitted. The adoption of this Update will not have a material impact on our consolidated financial statements. We will adopt this Update beginning on January 1, 2020.

3. REVENUE

On January 1, 2018, we adopted ASC Topic 606, "Revenue from Contracts with Customers" ("ASC Topic 606") 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, "Revenue Recognition" ("ASC Topic 605").

We recorded an increase to opening retained earnings of \$0.8 million (net of tax of \$0.3 million) 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 net sales as a result of applying ASC Topic 606 for the year ended December 31, 2018 was an increase of \$0.2 million.

In accordance with the new revenue standard requirement, the disclosure impact of adoption on our consolidated statement of income for the year ended December 31, 2018 and the consolidated balance sheet as of December 31, 2018 was as follows:

Consolidated Statements of Income

	For the Year Ended December 31, 2018		
	As Reported	Balance without Adoption	Effect of Change
Net sales	\$ 7,202.5	\$ 7,202.3	\$ 0.2
Cost of merchandise sold	5,821.6	5,821.6	—

Consolidated Balance Sheet

	As of December 31, 2018		
	As Reported	Balance without Adoption	Effect of Change
Merchandise inventory	\$ 658.7	\$ 668.2	\$ (9.5)
Other current assets	54.1	54.4	(0.3)
Other non-current liabilities	8.7	19.4	(10.7)
Retained earnings	678.1	677.2	0.9

The following table summarizes the percentages of our net sales attributable to each of our vertical markets for the years ended December 31, 2019, 2018, and 2017:

	For the Years Ended December 31,		
	2019	2018	2017
Construction	60.1 %	59.7 %	58.7 %
CIG	20.6	20.8	21.1
Industrial & Utility	19.3	19.5	20.2
Total net sales	100.0 %	100.0 %	100.0 %

Certain reclassifications have been made to the vertical market assigned to customers in the prior years' information to conform to the December 31, 2019 presentation.

We had no material contract assets, contract liabilities, or deferred contract costs recorded on the consolidated balance sheet as of December 31, 2019 and 2018. In addition, for the years ended December 31, 2019, 2018, and 2017, 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. CASH DISCOUNTS AND DOUBTFUL ACCOUNTS

The following table summarizes the activity in the allowances for cash discounts and doubtful accounts:

	Beginning Balance	Provision (Charged to Expense)	Deductions	Ending Balance
<u>For the Year Ended December 31, 2019</u>				
Allowance for cash discounts	\$ 2.2	\$ 35.8	\$ (35.8)	\$ 2.2
Allowance for doubtful accounts	3.7	7.0	(6.7)	4.0
Total	\$ 5.9	\$ 42.8	\$ (42.5)	\$ 6.2
<u>For the Year Ended December 31, 2018</u>				
Allowance for cash discounts	\$ 2.0	\$ 33.2	\$ (33.0)	\$ 2.2
Allowance for doubtful accounts	4.0	2.9	(3.2)	3.7
Total	\$ 6.0	\$ 36.1	\$ (36.2)	\$ 5.9
<u>For the Year Ended December 31, 2017</u>				
Allowance for cash discounts	\$ 1.7	\$ 31.2	\$ (30.9)	\$ 2.0
Allowance for doubtful accounts	3.3	3.6	(2.9)	4.0
Total	\$ 5.0	\$ 34.8	\$ (33.8)	\$ 6.0

5. INVENTORY

Our inventory, comprised entirely of finished goods, is stated at the lower of cost (generally determined using the LIFO cost method) or market. Inventories valued using the LIFO method comprised 90% and 91% of the total inventories at December 31, 2019 and 2018, respectively. Had the first-in, first-out ("FIFO") method been used, merchandise inventory would have been \$186.5 million and \$188.8 million greater than reported under the LIFO method at December 31, 2019 and 2018, respectively. In 2019, 2018, and 2017 we did not liquidate any portion of previously-created LIFO layers.

Reserves for excess and obsolete inventories were \$9.2 million and \$7.8 million at December 31, 2019 and 2018, respectively. The change in the reserve for excess and obsolete inventories, included in cost of merchandise sold, was \$1.4 million, \$(1.4) million, and \$2.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

6. PROPERTY AND DEPRECIATION

We provide for depreciation and amortization using the straight-line method over the following estimated useful asset lives:

Classification	Estimated Useful Asset Life
Buildings	42 years
Leasehold improvements	Over the shorter of the asset's life or the lease term
Furniture, fixtures, equipment and software	3 to 14 years
Assets held under finance leases	Over the shorter of the asset's life or the lease term

Depreciation expense was \$36.1 million, \$37.3 million, and \$38.8 million in 2019, 2018, and 2017, respectively.

At the time property is retired or otherwise disposed of, the asset and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to other income, net.

Assets held under finance leases, consisting primarily of information technology equipment, are recorded in property with the corresponding obligations carried in long-term debt. The amount capitalized is the present value at the beginning of the lease term of the aggregate future minimum lease payments. Assets capitalized as finance leases during the year ended December 31, 2019 and 2018 were \$2.0 million and \$3.1 million, respectively.

We capitalize interest expense on major construction and development projects while in progress. Interest capitalized for 2019, 2018, and 2017 was \$0.2 million, \$0.3 million and \$0.1 million, respectively.

Where applicable, we capitalize qualifying internal and external costs incurred to develop or obtain software for internal use during the application development stage. Costs incurred during the pre-application development and post-implementation stages are expensed as incurred. We capitalized software and software development costs of \$3.0 million and \$3.7 million in 2019 and 2018, respectively, and the amounts are recorded in software.

We review long-lived assets 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.

There were no impairment losses related to property recorded during 2019 or 2017. During 2018, we recorded an impairment loss of \$0.3 million to account for the expected loss on an abandoned property that did not qualify as an asset held for sale, where the net book value of the property exceeded the estimated selling price less estimated selling expenses. The impairment loss is included in other income, net in the consolidated statements of income.

7. LEASES

Effective January 1, 2019, we adopted ASC Topic 842, Leases, which requires the recording of operating lease ROU assets and operating lease liabilities. Finance leases were not materially impacted by the adoption of ASC Topic 842, as finance lease liabilities and the corresponding ROU assets were already recorded in the balance sheet under the previous guidance, ASC Topic 840.

We have operating and finance leases for corporate offices, warehouse buildings, sales offices, branch locations, vehicles, and certain equipment. Our leases have remaining lease terms of one to ten years, some of which may include options to extend the leases for up to five years, and some of which may include options to terminate the leases within one year. In addition to fixed lease payments, we incur variable lease charges that are recognized as incurred. These charges are primarily for maintenance and real estate taxes on leased facilities. Leases with an initial term of 12 months or less are not recorded in the balance sheet. We elected the package of transitional practical expedients which allows an entity not to reassess whether expired or existing contracts contain leases, lease classification of expired or existing leases, and whether previously capitalized initial direct costs would qualify for capitalization under Topic 842. As guidance allows, this package can be elected separate of any other practical expedient. As a practical expedient, we elected as an accounting policy not to separate non-lease components from lease components for real estate properties and information technology agreements.

We have implemented internal controls and key system functionality to enable the preparation of financial information. The standard had a material impact on our consolidated balance sheets, but did not have a material impact on our consolidated statements of income. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, while our accounting for finance leases remains substantially unchanged.

ROU assets represent our right to use an underlying asset during the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the net present value of fixed lease payments over the lease term. The lease term includes options to extend or terminate the lease when it is reasonably certain that we will exercise that option. As most of our operating leases and finance leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Fixed operating lease expense and finance lease depreciation expense are recognized on a straight-line basis over the lease term.

Adoption of ASU 2016-02 resulted in the recognition of \$98.1 million in operating lease liabilities and \$91.8 million of ROU assets, net of existing lease incentives and deferred rent liabilities at January 1, 2019.

The components of the lease expense for the year ended December 31, 2019 were as follows:

	Year Ended December 31, 2019
Operating lease cost	\$ 33.9
Finance lease cost:	
Amortization of right-of-use assets	2.2
Interest on lease liabilities	0.7
Total finance lease cost	2.9
Variable lease cost	9.5
Total lease cost	\$ 46.3

Supplemental balance sheet information at December 31, 2019 related to leases was as follows:

	December 31, 2019
Operating leases:	
Operating lease right-of-use assets	\$ 117.5
Current operating lease liabilities	\$ 28.6
Non-current operating lease liabilities	96.2
Total operating lease liabilities	\$ 124.8
Finance leases:	
Property, at cost	\$ 18.3
Less – accumulated depreciation and amortization	9.9
Net property	\$ 8.4
Current obligations of finance leases	\$ 2.1
Finance leases, net of current obligations	7.8
Total finance lease liabilities	\$ 9.9
Weighted average remaining lease term:	
Operating leases	5.0 years
Finance leases	5.1 years
Weighted average discount rate:	
Operating leases	3.3 %
Finance leases	7.0 %

Supplemental cash flow and other information for the year ended December 31, 2019 related to leases was as follows:

	Year Ended December 31, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	33.5
Operating cash flows from finance leases		0.7
Financing cash flows from finance leases		2.1
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	\$	55.9
Finance leases		2.0

Future minimum lease payments under non-cancellable leases as of December 31, 2019 were as follows:

	December 31, 2019	
	Operating Leases	Finance Leases
Future minimum lease payments		
2020	\$ 32.2	\$ 2.7
2021	29.4	2.7
2022	23.6	2.1
2023	18.2	1.5
2024	13.4	1.3
Thereafter	19.0	1.7
Total future minimum lease payments	\$ 135.8	\$ 12.0
Less: imputed interest	(11.0)	(2.1)
Total lease obligation	\$ 124.8	\$ 9.9
Less: current obligations	(28.6)	(2.1)
Long-term lease obligation	\$ 96.2	\$ 7.8

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill, included in other non-current assets in our consolidated balance sheets, for the years ended December 31 were as follows:

	2019	2018
Beginning balance	\$ 30.1	\$ 30.1
Goodwill acquired	—	—
Ending balance	\$ 30.1	\$ 30.1

As of December 31, 2019, we have completed our annual impairment test and concluded that there is no impairment of our goodwill.

Other Intangible Assets

Other intangible assets, included in other non-current assets in our consolidated balance sheets, consist of the following:

As of December 31, 2019				
	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	8.5 to 10.8 years	\$ 16.7	\$ (6.7)	\$ 10.0
Trade name	15 to 20 years	14.3	(2.8)	11.5
Non-compete agreements	3 to 5 years	0.3	(0.3)	—
Other intangible assets	10 years	0.1	(0.1)	—
Total		\$ 31.4	\$ (9.9)	\$ 21.5

As of December 31, 2018				
	Weighted Average Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	8.5 to 10.8 years	\$ 17.1	\$ (5.0)	\$ 12.1
Trade name	15 to 20 years	14.3	(2.1)	12.2
Non-compete agreements	3 to 5 years	0.3	(0.2)	0.1
Other intangible assets	10 years	0.2	(0.1)	0.1
Total		\$ 31.9	\$ (7.4)	\$ 24.5

We incurred losses of \$0.5 million related to our customer relationships during the year ended December 31, 2019. We did not incur impairment losses related to our other intangible assets during the year ended December 31, 2018. Amortization expense for other intangible assets was \$2.5 million, \$2.6 million, and \$2.6 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Estimated future amortization expense related to our intangible assets for the years ending December 31 are as follows:

2020	\$ 2.4
2021	2.4
2022	2.4
2023	2.4
2024	2.4
After 2024	9.5
	\$ 21.5

9. INCOME TAXES

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 consolidated financial statements.

The components of income before taxes and the provision for income taxes recorded in the consolidated statements of income are as follows:

For the Years Ended December 31,				
Components of Income before Taxes	2019	2018	2017	
Domestic	\$ 185.1	\$ 163.3	\$ 155.2	
Foreign	14.8	15.8	12.3	
Income before taxes	\$ 199.9	\$ 179.1	\$ 167.5	

Components of Income Tax Provision	For the Years Ended December 31,		
	2019	2018	2017
Current expense			
U.S. Federal	\$ 41.9	\$ 20.5	\$ 66.5
State	12.4	6.9	11.4
Foreign	4.4	4.6	3.5
Total current expense	\$ 58.7	\$ 32.0	\$ 81.4
Deferred (benefit) expense			
U.S. Federal	(3.0)	2.5	15.3
State	(0.8)	0.8	(1.1)
Foreign	0.1	0.1	—
Total deferred (benefit) expense	\$ (3.7)	\$ 3.4	\$ 14.2
Total income tax provision	\$ 55.0	\$ 35.4	\$ 95.6

A reconciliation between the statutory U.S. federal income tax rate and the effective tax rate in the consolidated statements of income is as follows:

	For the Years Ended December 31,		
	2019	2018	2017
Statutory U.S. federal income tax rate	21.0 %	21.0 %	35.0 %
State and local income taxes, net of federal benefit	4.5	3.1	4.0
Deemed repatriation of foreign earnings	—	(1.0)	3.3
Effect of tax rate changes	—	(5.1)	13.5
Meals and entertainment	1.4	1.4	1.4
Other, net	0.6	0.4	(0.1)
Effective tax rate	27.5 %	19.8 %	57.1 %

The effective tax rate increased in 2019 and reflects a normalization after the one-time effects of the TCJA were recorded in the 2018 and 2017 results.

Deferred income taxes are provided based upon differences between the financial statement and tax bases of assets and liabilities. The following deferred tax assets (liabilities) were recorded at December 31:

Assets (Liabilities)	2019	2018
Pension	\$ 38.7	\$ 31.0
Operating lease liabilities	30.6	—
Postretirement benefits	19.6	18.6
Inventory	14.9	12.1
Other deferred tax assets	5.0	5.0
Payroll accruals	2.9	2.9
Bad debt reserves	1.0	1.0
Subtotal	112.7	70.6
Less: valuation allowances	(0.4)	—
Deferred tax assets	112.3	70.6
Fixed assets	(32.2)	(28.3)
Operating lease right-of-use assets	(28.7)	—
Other deferred tax liabilities	(4.5)	(4.0)
Computer software	(2.9)	(3.2)
Deferred tax liabilities	(68.3)	(35.5)
Net deferred tax assets	\$ 44.0	\$ 35.1

Deferred income taxes included in non-current assets (liabilities) at December 31 were:

	2019	2018
Deferred tax assets included in other non-current assets	\$ 44.5	\$ 35.5
Deferred tax liabilities included in other non-current liabilities	(0.5)	(0.4)

Operating loss and tax credit carryforwards included in net deferred tax assets at December 31 were:

	2019	2018
U.S. Federal ^(A)	\$ 0.4	\$ —
State ^(A)	0.3	0.4
Foreign ^(B)	0.1	0.1

^(A)Expires between 2023 and 2030

^(B)Indefinite life

We have placed a partial valuation allowance on certain state net operating losses of less than \$0.1 million and a full valuation allowance on U.S. federal tax credits of \$0.4 million that are not expected to be utilized prior to expiration.

We have no material undistributed earnings of non-U.S. subsidiaries as of December 31, 2019, due to the one-time transition tax and global intangible low-taxed income ("GILTI") provisions enacted under the TCJA. We have settled the entire transition tax liability with the filing of the 2017 federal income tax return. No additional income taxes have been provided for any outside basis difference inherent in these foreign entities, as these amounts continue to be indefinitely reinvested in foreign operations. We have made an accounting policy election to treat GILTI as a period cost as it did not have a material impact on our tax provision.

Our federal income tax returns for the tax years 2016 and forward are available for examination by the United States Internal Revenue Service ("IRS"). The statute of limitation for the 2016 federal return will expire on October 15, 2020, unless extended by consent. Our state income tax returns for 2015 through 2019 remain subject to examination by various state authorities with the latest period closing on December 31, 2024. We have not extended the statutes of limitations in any state jurisdictions with respect to years prior to 2015.

The Tax Cuts and Jobs Act ("TCJA") was enacted on December 22, 2017. Among the provisions, the TCJA reduced the U.S. federal corporate income tax rate from a maximum of 35% to a flat 21% effective January 1, 2018, required companies to pay a one-time transition tax on deemed repatriated earnings of certain foreign subsidiaries that were previously tax deferred, and created new taxes on certain foreign sourced earnings. As of December 31, 2018, we completed our accounting for the tax effects of the enactment of the TCJA and finalized the tax effects on our existing deferred tax balances and the one-time transition tax under Staff Accounting Bulletin No. 118 ("SAB 118"). No further updates with respect to these TCJA provisions have been made in 2019.

At December 31, 2017, we remeasured domestic deferred tax assets and liabilities based on the expected future applicable tax rate and recorded a provisional tax expense of \$22.6 million, consisting of \$43.5 million of tax expense related to items previously recorded through accumulated other comprehensive income under FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("FAS 158"), and \$20.9 million of tax benefit related to items previously recorded through our provision for income taxes. During 2018, we finalized calculations of cumulative timing differences, resulting in a decrease in tax expense of \$9.2 million due to the return vs. provision difference remeasurement of these balances related to tax planning initiatives as of December 31, 2018.

The one-time transition tax is based on our total post-1986 earnings and profits ("E&P") that we previously deferred from U.S. income taxation, and the amount of those earnings held in cash and other specified assets. At December 31, 2017, we recorded a provisional amount for our one-time transition tax liability of \$6.2 million. We finalized our calculation as of December 31, 2018, resulting in a decrease in income tax expense of \$2.4 million. The entire transition tax liability was settled with the filing of the 2017 U.S. federal income tax return in 2018.

Our unrecognized tax benefits of \$1.9 million, \$2.6 million, and \$2.3 million as of December 31, 2019, 2018, and 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.

Our uncertain tax benefits, and changes thereto, during 2019, 2018, and 2017 were as follows:

	2019	2018	2017
Balance at January 1,	\$ 2.6	\$ 2.3	\$ 1.8
Additions based on tax positions related to current year	0.2	1.1	0.4
Additions based on tax positions of prior years	—	—	0.3
Reductions for tax positions of prior years	(0.1)	(0.8)	(0.2)
Settlements	(0.8)	—	—
Balance at December 31,	\$ 1.9	\$ 2.6	\$ 2.3

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 \$0.4 million in interest and penalties at December 31, 2019 and 2018. 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.

10. 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. A new Voting Trust Agreement was established effective March 3, 2017, which expires by its terms on March 1, 2027. At December 31, 2019, approximately 83% of our outstanding 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. 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.

During 2019, eligible employees and qualified retirees subscribed for 997,275 shares totaling \$19.9 million. Subscribers elected to make payments under one of the following options: (i) all shares subscribed for on or before January 3, 2020; or (ii) all shares subscribed for in installments paid through payroll deductions (or in certain cases where a subscriber is no longer on our payroll, through direct monthly payments) over an eleven-month period.

Common shares were delivered to subscribers as of January 3, 2020, in the case of shares paid for prior to January 3, 2020. Shares will be issued and delivered to subscribers on a quarterly basis, as of the tenth day of March, June, September, and December, to the extent full payments for shares are made in the case of subscriptions under the installment method.

Shown below is a summary of shares purchased and retired by the Company during the three years ended December 31:

	Shares of Common Stock	
	Purchased	Retired
2019	962,023	957,495
2018	786,754	752,825
2017	684,347	678,958

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 December 31, 2019 and 2018.

On December 12, 2019, our Board of Directors declared a 5% common stock dividend. Each shareholder was entitled to one share of common stock for every twenty shares held as of December 16, 2019. The stock was issued on February 7, 2020. On December 13, 2018, our Board of Directors declared a 10% common stock dividend. Each shareholder was entitled to one share of common stock for every ten shares held as of December 17, 2018. The stock was issued on February 1, 2019. On December 13, 2017, our Board of Directors, declared a 10% common stock dividend. Each shareholder was entitled to one share of common stock for every ten shares held as of December 18, 2017. The stock was issued on February 2, 2018.

11. NET INCOME PER SHARE OF COMMON STOCK

The computation of net income per share of common stock is based on the average number of common shares outstanding during each year, adjusted in all periods presented for the declaration of a 5% stock dividend declared in 2019, a 10% stock dividend declared in 2018, and a 10% stock dividend declared in 2017. The average number of shares used in computing net income per share of common stock at December 31, 2019, 2018, and 2017 was 22,555,240 shares, 22,507,701 shares, and 22,368,941 shares, respectively.

12. DEBT

	December 31,	
	2019	2018
Long-term Debt		
Finance arrangements, various maturities, with a weighted average interest rate of 6.62%	\$ 11.6	\$ 13.4
Less current portion	(3.8)	(3.4)
Long-term Debt	\$ 7.8	\$ 10.0

Long-term Debt matures as follows:

2020	\$ 3.8
2021	2.3
2022	1.7
2023	1.2
2024	1.1
After 2024	1.5
	\$ 11.6

The carrying amount of our outstanding long-term, fixed-rate debt exceeded its fair value by \$1.4 million and \$1.5 million at December 31, 2019 and 2018, respectively. The fair value of the long-term, fixed-rate debt is estimated by calculating future cash flows at interpolated Treasury yields with similar maturities, plus an estimate of our credit risk spread. The fair value of our variable-rate short- and long-term debt approximates its carrying value at December 31, 2019 and 2018, respectively.

Revolving Credit Facility

At December 31, 2019 and 2018, we, along with Graybar Canada Limited, our Canadian operating subsidiary (“Graybar Canada”), had an unsecured, 5-year, \$750.0 million revolving credit agreement maturing in August 2023 with Bank of America, N.A. and the other lenders named therein (the “Amended Credit Agreement”), which includes a combined letter of credit sub-facility of up to \$25.0 million, a U.S. swing-line loan facility of up to \$75.0 million, and a Canadian swing-line loan facility of up to \$20.0 million. The Amended Credit Agreement includes a \$100.0 million sublimit (in U.S. or Canadian dollars) for borrowings by Graybar Canada. The Amended Credit Agreement contains an accordion feature, which allows us to request increases in the aggregate borrowing commitments of up to \$375.0 million.

Interest on our borrowings under the Amended Credit Agreement will be based on, at the borrower’s election, either (A) in the case of Graybar as borrower (i) the base rate (as defined in the agreement) plus a margin ranging from 0.00% to 0.60%, or (ii) LIBOR plus a margin ranging from 1.00% to 1.60% or (B) in the case of Graybar Canada as borrower (i) the base rate (as defined in the agreement) plus a margin ranging from 0.00% to 0.60% or (ii) CDOR plus a margin ranging from 1.00% to 1.60%, in either case, as determined by the pricing grid set forth in the Amended Credit Agreement, subject to adjustment based upon the consolidated leverage ratio. In connection with such a borrowing, the applicable borrower will also select the term of the loan, up to six months, or automatically renew with the consent of the lenders. Swing line loans, which are daily loans, will bear interest at a rate based on, at the borrower’s election, either (i) the base rate or (ii) the daily floating Eurodollar rate (or CDOR, in the case of Graybar Canada). In addition to interest payments, there are certain fees and obligations associated with borrowings, swing-line loans, letters of credit and other administrative matters.

Borrowings of Graybar Canada may be in U.S. dollars or Canadian dollars. The obligations of Graybar Canada are secured by the guaranty of Graybar and any material domestic subsidiaries of Graybar (as defined). Under no circumstances will Graybar Canada use its borrowings to benefit Graybar or its operations, including without limitation to repay any of Graybar's obligations under the facility.

The Amended Credit Agreement provides for a quarterly commitment fee ranging from 0.25% to 0.40% per annum, subject to adjustment based upon the consolidated leverage ratio for a fiscal quarter, and letter of credit fees ranging from 1.00% to 1.60% per annum payable quarterly, subject to such adjustment. Availability under the Amended Credit Agreement is subject to the accuracy of representations and warranties and absence of a default and, in the case of Canadian borrowings denominated in Canadian dollars, the absence of a material adverse change in the national or international financial markets that would make it impracticable to lend Canadian dollars.

The Amended Credit Agreement also provides for customary events of default, including a failure to pay principal, interest or fees when due, failure to comply with covenants, the fact that any representation or warranty made by any of the credit parties is materially incorrect, the occurrence of an event of default under certain other indebtedness by us and our subsidiaries, the commencement of certain insolvency or receivership events affecting any of the credit parties, certain actions under the Employee Retirement Income Security Act of 1974 ("ERISA") and the occurrence of a change in control of any of the credit parties (subject to certain permitted transactions as described in the Amended Credit Agreement). Upon the occurrence of an event of default, the commitments of the lenders may be terminated and all outstanding obligations of the credit parties under the Amended Credit Agreement may be declared immediately due and payable.

The Amended Credit Agreement contains affirmative and negative covenants customary for credit facilities of this type, including limitations on us and our subsidiaries with respect to indebtedness (with specified, limited exceptions), liens, changes in the nature of our business, investments, mergers and acquisitions, issuance of equity securities, dispositions of assets and dissolution of certain subsidiaries, transactions with affiliates, restricted payments (subject to incurrence tests, with certain exceptions, including payments under senior notes), as well as securitizations, factoring transactions, and transactions with sanctioned parties or in violation of certain U.S. or Canadian anti-corruption laws. There are also maximum leverage ratio and minimum interest coverage ratio financial covenants to which we will be subject to during the term of the Amended Credit Agreement. We were in compliance with all covenants under the Amended Credit Agreement as of December 31, 2019 and 2018.

Short-term borrowings of \$138.0 million and \$235.0 million outstanding at December 31, 2019 and 2018, respectively, were drawn under the Amended Credit Agreement.

Short-term borrowings outstanding during the years ended December 31, 2019 and 2018 ranged from a minimum of \$10.0 million and \$140.0 million to a maximum of \$257.0 million and \$261.0 million, respectively. The average daily amount of borrowings outstanding under the Amended Credit Agreement during 2019 and 2018 amounted to approximately \$151.0 million and \$202.0 million at weighted-average interest rates of 3.42% and 3.05%, respectively. The weighted-average interest rate for amounts outstanding at December 31, 2019 was 2.78%.

At December 31, 2019, we had available unused committed lines of credit under the Amended Credit Agreement amounting to \$611.5 million, compared to \$515.0 million at December 31, 2018.

Interest expense, net was \$5.5 million, \$6.9 million, and \$4.2 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Private Placement Shelf Agreements

We have an uncommitted \$100.0 million 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. We also have an uncommitted \$100.0 million 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"). 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 issuance during a three-year period ending August 2021.

We remain obligated under 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 Amended Credit Agreement.

No notes have been issued under either the Prudential Shelf Agreement or the MetLife Shelf Agreement as of December 31, 2019 and 2018.

Each shelf agreement contains representations and warranties of the Company and the applicable lender, customary events of default and affirmative and negative covenants, customary for agreements of this type. These covenants are substantially similar to those contained in the Amended Credit Agreement, subject to a number of exceptions and qualifications set forth in the applicable shelf agreement. 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 Prudential Shelf Agreement and the Metlife Shelf Agreements as of December 31, 2019 and 2018.

Letters of Credit

We had total letters of credit of \$5.6 million outstanding at December 31, 2019, of which \$0.5 million were issued under the Amended Credit Agreement. We had total letters of credit of \$5.6 million outstanding at December 31, 2018, of which none were issued under the Amended Credit Agreement. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

13. PENSION AND OTHER POSTRETIREMENT BENEFITS

We have a noncontributory defined benefit pension plan (the "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 Pension Plan provides retirement benefits based on an employee's final 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 pension benefits for compensation in excess of the IRS compensation limits applicable to the Pension Plan and eligible compensation deferred by a participant.

Our funding policy is to make contributions to the Pension Plan, 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 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 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 December 31, 2019 and 2018.

The following table sets forth information regarding the funded status of our pension and other postretirement benefits as of December 31, 2019 and 2018:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	2019	2018	2019	2018
Change in Benefit Obligation:				
Benefit obligation at beginning of period	\$ 708.8	\$ 756.3	\$ 72.5	\$ 76.8
Service cost	25.6	28.6	2.0	2.3
Interest cost	30.0	27.3	2.9	2.6
Actuarial loss (gain)	117.0	(57.7)	3.0	(5.2)
Benefits paid from plan assets	(52.3)	(42.5)	—	—
Benefits paid from Company assets	(1.7)	(1.6)	(5.8)	(5.6)
Plan participants' contributions	—	—	1.4	1.6
Administrative expenses paid	(2.3)	(1.6)	—	—
Plan amendments	—	—	0.2	—
Benefit Obligation at End of Period	825.1	708.8	76.2	72.5
Change in Plan Assets:				
Fair value of plan assets at beginning of period	588.3	585.4	—	—
Actual return on plan assets	114.7	(33.0)	—	—
Employer contributions ^(A)	11.7	81.6	4.4	4.0
Plan participants' contributions	—	—	1.4	1.6
Benefits paid ^(A)	(54.0)	(44.1)	(5.8)	(5.6)
Administrative expenses paid	(2.3)	(1.6)	—	—
Fair Value of Plan Assets at End of Period	658.4	588.3	—	—
Unfunded Status	\$ 166.7	\$ 120.5	\$ 76.2	\$ 72.5

^(A) Includes \$1.7 million and \$1.6 million paid from our assets for unfunded nonqualified pension benefits in fiscal years 2019 and 2018, respectively.

The accumulated benefit obligation for our Pension Plan was \$746.8 million and \$636.3 million at December 31, 2019 and 2018, respectively.

Amounts recognized in the consolidated balance sheet for the years ended December 31 consist of the following:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	2019	2018	2019	2018
Current accrued benefit cost	\$ 2.1	\$ 1.9	\$ 6.8	\$ 5.8
Non-current accrued benefit cost	164.6	118.6	69.4	66.7
Net amount recognized	\$ 166.7	\$ 120.5	\$ 76.2	\$ 72.5

Current accrued benefit cost for both pension benefits and postretirement benefits is included in other current liabilities in the consolidated balance sheets. Non-current accrued benefit cost for pension benefits and postretirement benefits are included in pension liability and postretirement benefits liability, respectively, in the consolidated balance sheets.

Amounts recognized in accumulated other comprehensive loss for the years ended December 31, net of tax, consist of the following:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	2019	2018	2019	2018
Net actuarial loss	\$ 232.4	\$ 219.6	\$ 10.4	\$ 8.3
Prior service cost (gain)	—	—	0.1	—
Accumulated other comprehensive loss	\$ 232.4	\$ 219.6	\$ 10.5	\$ 8.3

Amounts estimated to be amortized from accumulated other comprehensive loss into net periodic benefit costs in 2020, net of tax, consist of the following:

	Pension Benefits	Postretirement Benefits
Net actuarial loss	\$ 21.5	\$ 0.5
Accumulated other comprehensive loss	\$ 21.5	\$ 0.5

Weighted-average assumptions used to determine the actuarial present value of the pension and postretirement benefit obligations as of December 31 are:

	Pension Benefits		Postretirement Benefits	
	2019	2018	2019	2018
Discount rate	3.38 %	4.31 %	3.19 %	4.16 %
Rate of compensation increase	4.36 %	4.49 %	—	—
Healthcare cost trend on covered charges	—	—	5.00 %	5.00 %

A one percentage point increase or decrease in the assumed healthcare cost trend rate would not have had a material effect on the postretirement benefit obligations as of December 31, 2019 and 2018.

The net periodic benefit cost for the years ended December 31, 2019, 2018, and 2017 included the following components:

Components of Net Periodic Benefit Cost	Pension Benefits			Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
Selling, general, and administrative expenses:						
Service cost	\$ 25.6	\$ 28.6	\$ 26.4	\$ 2.0	\$ 2.3	\$ 2.3
Total selling, general, and administrative expenses	\$ 25.6	\$ 28.6	\$ 26.4	\$ 2.0	\$ 2.3	\$ 2.3
Non-operating expenses:						
Interest cost	30.0	27.3	27.8	2.9	2.6	2.9
Expected return on plan assets	(34.1)	(31.9)	(30.6)	—	—	—
Amortization of:						
Net actuarial loss	19.1	26.5	21.5	0.3	0.9	0.8
Prior service cost (gain)	—	0.3	0.4	—	(2.0)	(2.2)
Total non-operating expenses	\$ 15.0	\$ 22.2	\$ 19.1	\$ 3.2	\$ 1.5	\$ 1.5
Net periodic benefit cost	\$ 40.6	\$ 50.8	\$ 45.5	\$ 5.2	\$ 3.8	\$ 3.8

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31 were:

	Pension Benefits			Postretirement Benefits		
	2019	2018	2017	2019	2018	2017
Discount rate	4.31 %	3.67 %	4.15 %	4.16 %	3.44 %	3.78 %
Expected return on plan assets	5.75 %	5.75 %	5.75 %	—	—	—
Rate of compensation increase	4.36 %	4.49 %	4.52 %	—	—	—
Healthcare cost trend on covered charges	—	—	—	5.00 %	5.50% / 5.00%	6.00% / 5.00%

The expected return on plan assets assumption for the Pension Plan is a long-term assumption and was determined after evaluating input from both the plan's actuary and pension fund investment advisors, consideration of macroeconomic conditions, historical rates of return on plan assets, and anticipated current and long-term rates of return on the various classes of assets in which the plan invests.

For measurement of the postretirement benefits net periodic cost, a 5.00% annual rate of increase in per capita cost of covered healthcare benefits was assumed for 2019. The rate was assumed to remain at 5.00% in 2020 and to remain at that level thereafter. A one percentage point increase or decrease in the assumed healthcare cost trend rate would not have had a material effect on 2019, 2018 and 2017 net periodic benefit cost.

We expect to fund \$1.8 million for nonqualified pension benefits during 2020. Required pension contributions under ERISA regulations are expected to be \$40.0 million in 2020; however, additional contributions may be made at our discretion.

Estimated future defined benefit pension and other postretirement benefit plan payments to plan participants for the years ending December 31 are as follows:

Year	Pension Benefits	Postretirement Benefits
2020	\$ 62.0	\$ 6.9
2021	58.3	7.5
2022	58.2	7.7
2023	59.2	7.5
2024	59.1	7.3
2025 to 2029	296.8	33.0

The investment objective of our Pension Plan is to ensure that there are sufficient assets to fund regular pension benefits payable to employees over the long-term life of the plan. Our Pension Plan seeks to allocate plan assets in a manner that is closely duration-matched with the actuarial projected cash flow liabilities, consistent with prudent standards for preservation of capital, tolerance of investment risk, and maintenance of liquidity. Assets of the qualified pension plan are held by Comerica Bank (the "Trustee").

Our Pension Plan utilizes a liability-driven investment ("LDI") approach to help meet these objectives. The LDI strategy employs a structured fixed-income portfolio designed to reduce volatility in the plan's future funding requirements and funding status. This is accomplished by using a blend of long duration government, quasi-governmental and corporate fixed-income securities, as well as appropriate levels of equity and alternative investments designed to optimize the plan's liability hedge ratio. In practice, the value of an asset portfolio constructed primarily of fixed income securities is inversely correlated to changes in market interest rates, primarily offsetting changes in the value of the pension benefit obligation caused by changes in the interest rate used to discount plan liabilities.

Asset allocation information for the Pension Plan at December 31, 2019 and 2018 is as follows:

Investment	2019 Actual Allocation	2019 Target Allocation Range	2018 Actual Allocation	2018 Target Allocation Range
Equity securities-U.S.	6 %	3-10 %	5 %	3-15 %
Equity securities-International	9 %	2-10 %	8 %	3-15 %
Fixed income investments	68 %	40-80 %	71 %	38-85 %
Hedge funds	5 %	2-8 %	5 %	5-15 %
Private markets	4 %	0-15 %	4 %	3-13 %
Other investments	8 %	0-14 %	7 %	0-10 %
Short-term investments	— %	1-10 %	— %	0-3 %
Total	100 %	100 %	100 %	100 %

Certain reclassifications have been made to the classes of plan assets in prior year to conform to the December 31, 2019 presentation due to a change in our investment policy in 2019.

The following is a description of the valuation methodologies used for assets held by the Pension Plan measured at fair value:

Equity securities - U.S.

Equity securities - U.S. consist of investments in U.S. corporate stocks and U.S. equity mutual funds. U.S. equity mutual funds include publicly traded mutual funds and a bank collective fund for ERISA plans. U.S. corporate stocks and U.S. equity mutual funds are primarily large-capitalization stocks (defined as companies with market capitalization of more than \$10 billion). U.S. corporate stocks and publicly traded mutual funds are valued at the closing price reported on the active public market in which the individual securities are traded and are classified as Level 1. The bank collective fund for ERISA plans is valued at the net asset value ("NAV") of units of the fund. The NAV, as provided by the Trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund.

Equity securities – International

Equity securities - International consist of investments in international corporate stocks, publicly traded mutual funds, and a collective investment trust, and are primarily investments within developed and emerging markets. Investments other than the collective investment trust are valued at the closing price reported on the active public market in which the individual securities are traded and are classified as Level 1. The collective investment trust is valued at the NAV of units of the fund. The NAV, as provided by the Trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund. Audited financial statements are produced on an annual basis for the collective investment trust.

Fixed income investments

Fixed income investments consist of U.S. and international corporate bonds, government and government agency bonds, as well as a publicly traded mutual fund and commingled funds, both of which invest in corporate and government debt securities within the U.S. U.S. and international corporate bonds, government and government agency bonds, and the publicly traded mutual fund are valued at the closing price reported on the active market in which they are traded and thus are classified as Level 1. The commingled funds are valued at the NAV of units of the fund. The NAV, as provided by the Trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund.

Hedge funds

Hedge funds consist of investments in various hedge funds structured as fund-of-funds (defined as a single fund that invests in multiple funds). The hedge funds use various investment strategies in an attempt to generate non-correlated returns. A fund-of-funds is designed to help diversify and reduce the risk of the overall portfolio. The hedge funds are valued at the NAV of units of the fund. The NAV, as provided by the Trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund. Audited financial statements are produced on an annual basis for the hedge funds.

Private markets

Private markets consist of private equity investments. Private markets is an asset class that is generally characterized as requiring long-term commitments and where liquidity is typically limited. Private markets do not have an actively traded market with readily observable prices. The investments are limited partnerships ("LP") and are diversified across typical private equity strategies including: buyouts, co-investments, secondary offerings, venture capital, real estate, and special situations. Valuations are developed using a variety of proprietary model methodologies. Valuations may be derived from publicly available sources as well as information obtained from each fund's general partner based upon public market conditions and returns. All private markets investments are classified as Level 3, other than a real estate investment trust ("REIT"). The REIT is a commingled trust valued at the NAV of units of the trust. The NAV, as provided by the Trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund. Audited financial statements are produced on an annual basis for the private markets investments.

Other investments

Other investments consist of investments in a diversified mutual fund, a private debt fund, and a high-yield bond fund. The diversified mutual fund is valued using quoted prices in an active market, and is therefore classified as Level 1. The private debt fund is valued using unobservable inputs with limited trading activity, and is therefore classified as Level 3. The high-yield bond fund is valued using the NAV based on the fair value of the underlying investments held by the fund. The NAV, as provided by the Trustee, is used as a practical expedient to estimate fair value. Audited financial statements are produced on an annual basis for the private debt fund and the high-yield bond fund.

Short-term investments

Short-term investments consist of cash and cash equivalents in a short-term fund which is valued at the NAV of units of the fund. The NAV, as provided by the Trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund.

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while we believe our Pension Plan valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There have been no changes in the methodologies for determining fair value at December 31, 2019 or 2018.

The following tables set forth, by level within the fair value hierarchy, the Pension Plan assets measured at fair value as of December 31, 2019 and 2018:

December 31, 2019						
	Investments Measured at					
Investment	NAV	Level 1	Level 2	Level 3	Total	
Equity securities - U.S.	\$ 14.0	\$ 26.0	\$ —	\$ —	\$ 40.0	
Equity securities - International	20.7	37.9	—	—	58.6	
Fixed income investments	312.7	135.2	—	—	447.9	
Hedge funds	32.0	—	—	—	32.0	
Private markets	17.0	—	—	11.0	28.0	
Other investments	17.7	20.4	—	11.4	49.5	
Short-term investments	2.4	—	—	—	2.4	
Total	\$ 416.5	\$ 219.5	\$ —	\$ 22.4	\$ 658.4	

December 31, 2018						
	Investments Measured at					
Investment	NAV	Level 1	Level 2	Level 3	Total	
Equity securities - U.S.	\$ 10.7	\$ 19.3	\$ —	\$ —	\$ 30.0	
Equity securities - International	—	47.6	—	—	47.6	
Fixed income investments	291.7	124.9	—	—	416.6	
Hedge funds	30.7	—	—	—	30.7	
Private markets	16.3	—	—	6.0	22.3	
Other investments	18.2	15.9	—	4.4	38.5	
Short-term investments	2.6	—	—	—	2.6	
Total	\$ 370.2	\$ 207.7	\$ —	\$ 10.4	\$ 588.3	

The tables below set forth a summary of changes in the fair value of the Pension Plan's Level 3 assets for the years ended December 31, 2019 and 2018:

December 31, 2019				
	Private Markets	Other Investments	Total	
Balance, beginning of year	\$ 6.0	\$ 4.4	\$	10.4
Realized gains	0.1	—		0.1
Unrealized gains	0.7	0.8		1.5
Purchases	4.4	6.8		11.2
Sales	(0.2)	(0.6)		(0.8)
Balance, end of year	\$ 11.0	\$ 11.4	\$	22.4

December 31, 2018				
		Private Markets	Other Investments	Total
Balance, beginning of year	\$	3.8	\$ 3.9	\$ 7.7
Realized gains		0.1	—	0.1
Purchases		3.2	0.9	4.1
Sales		(1.1)	(0.4)	(1.5)
Balance, end of year	\$	6.0	\$ 4.4	\$ 10.4

Certain reclassifications have been made to the classes of plan assets in prior year to conform to the December 31, 2019 presentation due to a change in our investment policy in 2019.

14. PROFIT SHARING AND SAVINGS PLAN

We provide a defined contribution profit sharing and savings plan (the "Plan") covering substantially all of our eligible employees with an individual account for each participant. Employees may make voluntary before-tax and/or after-tax contributions to the saving portion of the Plan, ranging from 2% to 50% of pay, subject to limitations imposed by federal tax law, ERISA, and the Pension Protection Act of 2006. Substantially all employees hired or rehired after July 1, 2015 are eligible to receive a Company matching contribution beginning the first month after the completion of one year of service and 1,000 hours of service. Effective July 1, 2019, eligible employees receive Company matching contributions beginning the first month after the completion of six months of service and 500 hours of service. The Company match is equal to 50% of an eligible employee's before-tax or Roth payroll contribution, up to 6% of pay per payroll period, with a maximum match per payroll period of 3%. The matching contribution expense recognized by us was \$2.7 million, \$1.8 million, and \$0.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Annual contributions made by us to the profit-sharing portion of the Plan are determined by the Board of Directors at its discretion, and are generally based on the profitability of the Company. Expense recognized by us under the profit-sharing portion of the Plan was \$56.8 million, \$67.4 million, and \$43.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

15. COMMITMENTS AND CONTINGENCIES

Rental expense was \$36.4 million, \$29.4 million, and \$27.3 million in 2019, 2018, and 2017, respectively. For future minimum rental payments required under operating leases that have either initial or remaining noncancelable lease terms in excess of one year as of December 31, 2019, refer to Note 7, "Leases".

We are subject to various claims, disputes, and administrative and legal matters incidental to our past and current business activities. As a result, contingencies can 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 or 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.

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss as of December 31 are as follows:

	2019	2018
Currency translation	\$ (7.7)	\$ (12.4)
Pension liability	(232.4)	(219.6)
Postretirement benefits liability	(10.5)	(8.3)
Accumulated other comprehensive loss	\$ (250.6)	\$ (240.3)

The following table represents amounts reclassified from accumulated other comprehensive loss for the years ended December 31, 2019 and 2018:

	2019			2018		
	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 Consolidated Statement of Income:						
Non-operating expenses	\$ 19.4	\$ —	\$ 19.4	\$ 27.4	\$ (1.7)	\$ 25.7
Tax (benefit) expense	(5.0)	—	(5.0)	(7.0)	0.4	(6.6)
Total reclassifications for the period, net of tax	\$ 14.4	\$ —	\$ 14.4	\$ 20.4	\$ (1.3)	\$ 19.1

The following table represents the activity included in accumulated other comprehensive loss for the years ended December 31, 2019 and 2018:

	2019			2018		
	Foreign Currency	Pension and Other Postretirement Benefits	Total	Foreign Currency	Pension and Other Postretirement Benefits	Total
Beginning balance January 1,	\$ (12.4)	\$ (227.9)	\$ (240.3)	\$ (4.6)	\$ (245.5)	\$ (250.1)
Other comprehensive income (loss) before reclassifications	4.7	—	4.7	(7.8)	—	(7.8)
Amounts reclassified from accumulated other comprehensive loss (net of tax \$(5.0) and \$(6.6))	—	14.4	14.4	—	19.1	19.1
Actuarial loss, (net of tax \$10.2 and \$0.5)	—	(29.4)	(29.4)	—	(1.5)	(1.5)
Net current-period other comprehensive income (loss)	4.7	(15.0)	(10.3)	(7.8)	17.6	9.8
Ending balance December 31,	\$ (7.7)	\$ (242.9)	\$ (250.6)	\$ (12.4)	\$ (227.9)	\$ (240.3)

17. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables set forth selected quarterly financial data for the years ended December 31, 2019 and 2018:

For the Quarter Ended	2019			
	March 31,	June 30,	September 30,	December 31,
Net sales	\$ 1,777.8	\$ 1,948.0	\$ 1,981.4	\$ 1,816.7
Gross margin	\$ 338.7	\$ 367.7	\$ 377.8	\$ 344.8
Net income attributable to the Company	\$ 34.3	\$ 47.0	\$ 48.8	\$ 14.4
Net income attributable to the Company per share of common stock ^(A)	\$ 1.51	\$ 2.08	\$ 2.17	\$ 0.65

^(A)All periods adjusted for a 5% stock dividend declared in December 2019. Prior to these adjustments, the average common shares outstanding for the first, second, third, and fourth quarters of 2019 were 21,616,141 shares, 21,513,493 shares, 21,449,751 shares, and 21,390,053 shares, respectively.

For the Quarter Ended	2018			
	March 31,	June 30,	September 30,	December 31,
Net sales	\$ 1,637.7	\$ 1,832.3	\$ 1,870.3	\$ 1,862.2
Gross margin	\$ 311.4	\$ 351.2	\$ 353.4	\$ 364.9
Net income attributable to the Company	\$ 21.1	\$ 44.5	\$ 53.6	\$ 24.1
Net income attributable to the Company per share of common stock ^(A)	\$ 0.93	\$ 1.98	\$ 2.38	\$ 1.08

^(A)All periods adjusted for a 5% stock dividend declared in December 2019 and a 10% stock dividend declared in December 2018. Prior to these adjustments, the average common shares outstanding for the first, second, third, and fourth quarters of 2018 were 19,544,758 shares, 19,500,916 shares, 19,465,072 shares, and 19,454,943 shares, respectively.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) are designed to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is accumulated and communicated to Company management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019 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 as of December 31, 2019 to ensure 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.

Management of the Company, including its Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls will prevent or detect all errors. A control system, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the control system's objective will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, have been detected. These inherent limitations include the realities that disclosure requirements may be misinterpreted and judgments in decision-making may be inexact.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management of the Company conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) issued in May 2013. Based on that evaluation, management of the Company concluded that our internal control over financial reporting was effective as of December 31, 2019.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that have occurred during our last fiscal quarter that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information with respect to the directors of the Company who are nominees for election at the 2020 annual meeting of shareholders that is required to be included pursuant to this Item 10 will be included under the caption “Proposal 1: Nominees for Election as Directors” and “Information About the Board of Directors and Corporate Governance Matters” in the Company’s Definitive Information Statement relating to the 2020 Annual Meeting (the “Information Statement”) to be filed with the SEC pursuant to Rule 14c-5 under the Exchange Act, and is incorporated herein by reference.

The information with respect to our audit committee and audit committee financial expert, and nominating committee required to be included pursuant to this Item 10 will be included under the caption “Information About the Board of Directors and Corporate Governance Matters” in our Information Statement and is incorporated herein by reference.

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer and principal accounting officer (collectively “Covered Officers”). This code of ethics is appended to our business conduct guidelines for all employees. The business conduct guidelines and specific code for Covered Officers may be accessed at: www.graybar.com/store/en/gb/cm/company/legal and is also available in print without charge upon written request addressed to the Secretary of the Company at our principal executive offices.

Item 11. Executive Compensation

The information with respect to executive compensation, our advisory compensation committee, and the compensation committee interlocks and insider participation required to be included pursuant to this Item 11 will be included under the captions “Information About the Board of Directors and Corporate Governance Matters” and “Compensation Discussion and Analysis” in the Information Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information with respect to the security ownership of beneficial owners of more than 5% of the Common Stock and of directors and executive officers of the Company required to be included pursuant to this Item 12, will be included under the captions “Beneficial Ownership of More Than 5% of the Outstanding Common Stock” and “Beneficial Ownership of Management” in the Information Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

At the date of this report, there are no reportable transactions, business relationships or indebtedness of the type required to be included pursuant to this Item 13 between the Company and any beneficial owner of more than 5% of the Common Stock, the directors or nominees for director of the Company, the executive officers of the Company or the members of the immediate families of such individuals. If there is any change in that regard prior to the filing of the Information Statement, such information will be included under the caption “Transactions with Related Persons” in the Information Statement and shall be incorporated herein by reference.

The information with respect to director independence and to corporate governance required to be included pursuant to this Item 13 will be included under the captions “Proposal 1: Nominees for Election as Directors” and “Information about the Board of Directors and Corporate Governance Matters” in the Information Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information with respect to principal accounting fees and services required to be included pursuant to this Item 14 will be included under the caption “Relationship with Independent Registered Public Accounting Firm” in our Information Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) List of documents filed as part of this report:

1. **Financial Statements**
All Consolidated Financial Statements of the Company as set forth under Item 8 of this Annual Report on Form 10-K.
2. **Financial Statement Schedule**
None.
3. **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 [Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934](#)
- 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.

The Company hereby agrees to furnish to the Commission upon request a copy of each instrument omitted pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K.

- 10.1 [Management Incentive Plan, filed as Exhibit 10\(i\) to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 \(Commission File No. 000-00255\) and incorporated herein by reference.*](#)
- 10.2 [Graybar Electric Company, Inc. Supplemental Benefit Plan, amended and restated, entered into between the Company and certain employees effective January 1, 2016, filed as Exhibit 10\(ii\) to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 \(Commission File No. 000-00255\) and incorporated herein by reference.*](#)
- 10.3 [Form of Deferral Agreement under Graybar Electric Company, Inc. Supplemental Benefit Plan, filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 \(Commission File No. 000-00255\) and incorporated herein by reference.*](#)
- 10.5 [Third Amendment to Credit Agreement, dated as of August 10, 2018, among the Company, as parent borrower, Graybar Canada Limited, as a borrower, the lenders party thereto, Bank of America, N.A., as Domestic Administrative Agent, Domestic Swing Line Lender and Domestic L/C Issuer and Bank of America, N.A., acting through its Canada Branch, as Canadian Administrative Agent, Canadian Swing Line Lender and Canadian L/C Issuer, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 \(Commission File No. 000-00225\) and incorporated herein by reference.](#)
- 10.6 [Private Shelf Agreement, dated September 22, 2014, between the Company and Prudential Investment Management, Inc., filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 \(Commission File No. 000-00225\) and incorporated herein by reference.](#)

10.7	<u>Amendment No. 1 to Private Shelf Agreement, dated August 2, 2017, between the Company and PGIM, Inc. (formerly known as Prudential Investment Management, Inc.), filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (Commission File No. 000-002255) and incorporated herein by reference.</u>
10.8	<u>Amendment No. 2 to Private Shelf Agreement, dated August 10, 2018, between the Company and PGIM, Inc., filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (Commission File No. 000-00225) and incorporated herein by reference.</u>
10.9	<u>Private Shelf Agreement, dated September 22, 2016, between the Company and Metropolitan Life Insurance Company, MetLife Investment Advisors, LLC, and other MetLife affiliates, filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (Commission File No. 000-00225) and incorporated herein by reference.</u>
10.10	<u>Amendment No. 1 to Private Shelf Agreement, dated August 10, 2018, among the Company and Metropolitan Life Insurance Company, MetLife Investment Advisors, LLC and other MetLife affiliates, filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (Commission File No. 000-00225) and incorporated herein by reference.</u>
21	<u>List of subsidiaries of the Company</u>
31.1	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Principal Executive Officer.</u>
31.2	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Principal Financial Officer.</u>
32.1	<u>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.</u>
32.2	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Principal Financial Officer.</u>
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
104	Cover Page Interactive Data File (formatted in Inline XBRL contained in Exhibit 101)

* Compensation arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, as of the 12th day of March 2020.

GRAYBAR ELECTRIC COMPANY, INC.

By /s/ K. M. MAZZARELLA
(K. M. Mazzarella, Chairman of the Board, President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant in the capacities indicated, on March 12, 2020.

<u>/s/ K. M. MAZZARELLA</u> (K. M. Mazzarella)	Director, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
<u>/s/ S. S. CLIFFORD</u> (S. S. Clifford)	Director, Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ D. A. BENDER</u> (D. A. Bender)	Director
<u>/s/ M. W. GEEKIE</u> (M. W. Geekie)	Director
<u>/s/ R. R. HARWOOD</u> (R. R. Harwood)	Director
<u>/s/ R. H. HARVEY</u> (R. H. Harvey)	Director
<u>/s/ R. C. LYONS</u> (R. C. Lyons)	Director
<u>/s/ W. P. MANSFIELD</u> (W. P. Mansfield)	Director
<u>/s/ D. G. MAXWELL</u> (D. G. Maxwell)	Director
<u>/s/ B. L. PROPST</u> (B. L. Propst)	Director

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, Graybar Electric Company, Inc. ("Graybar") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our Common Stock. The voting trust interests under the 2017 voting trust are described following the description of our Common Stock.

Description of Common Stock

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), and our Bylaws, as amended (the "Bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. We encourage you to read our Certificate of Incorporation, our Bylaws and the applicable provisions of the New York Business Corporation Law for additional information.

Authorized Capital

Graybar's authorized capitalization consists of 10,000,000 shares of preferred stock and 50,000,000 shares of Common Stock. The stated value of the Common Stock is \$20.00 per share. No preferred stock is outstanding.

Dividends

Except as prohibited by law, dividends may be paid upon the Common Stock at the discretion of our board of directors.

Voting Rights

Except as otherwise required by law, holders of Common Stock have the exclusive right to vote in respect of the election of directors and for all other purposes requiring the approval or consent of shareholders. As a general matter, the Voting Trustees as a group possess the voting power associated with the shares held of record under the Voting Trust Agreement (which is discussed below), and such voting power is sufficient to assure the election of the persons nominated by the board of directors for election as directors and, except as provided otherwise in the Voting Trust Agreement, approval of any other matters brought before a meeting of shareholders.

Liquidation Rights

In the event of a voluntary or involuntary dissolution, liquidation or winding-up of Graybar, after payment in full of the amounts required to be paid to any holders of preferred stock, the holders of Common Stock are entitled to share ratably in all remaining assets.

In such event, if any preferred stock is outstanding, the holders of preferred stock would be entitled to receive, in preference to holders of common stock, the par value of the preferred shares plus an amount equal to any dividends accrued thereon to the extent earned but unpaid to the date of payment.

Miscellaneous

The Common Stock has no conversion, preemptive or subscription rights, and there are no sinking fund or redemption provisions applicable to the Common Stock. The outstanding shares of our Common Stock are fully paid and non-assessable, except that under the New York Business Corporation Law, the ten largest holders of Common Stock are liable under specified conditions for debts, wages or salaries due and not paid by us to any laborers, servants or employees, other than contractors, for services performed by them for us.

Purchase Option

No holder of Common Stock may sell, transfer or otherwise dispose of any shares without first offering us the option to purchase those shares within 30 days after the offer for \$20.00 per share.

Graybar also has the option to purchase for \$20.00 per share the Common Stock of any shareholder who ceases to be an employee for any reason other than death or Retirement at any time after termination of employment until 30 days after the holder makes an offer to sell the Common Stock to us.

For purposes of the previous sentence, "Retirement" is defined in our Certificate of Incorporation to mean: (i) for employees first hired or last rehired on or before July 1, 2015, or receiving pension benefits, retirement on a service pension allowed by the Company; and (ii) for employees first hired after July 1, 2015, attainment of age 65 and three years of company service or attainment of age 55 and twenty years of company service.

In the event of the death of any shareholder, we have the option to purchase all or any part of his or her Common Stock from the shareholder's estate for \$20.00 per share at any time after the expiration of one year from the date of death until 30 days after the Common Stock has been offered to us. If the shareholder's estate offers to sell the shares to us within the one-year period, our option terminates 30 days from the offer.

No shareholder may hypothecate or pledge Common Stock, except under an agreement of hypothecation or pledge containing provisions permitting us to exercise the purchase option referred to above and to purchase the pledge of shares in the event of default upon payment of the lesser of the amount due on the pledge or the purchase price, and containing suitable provisions for redemption by the shareholder or payment of any balance to which the shareholder may be entitled. No shareholder may transfer or place any shares of Common Stock, or Voting Trust Interests representing shares, into a trust, except that we will, under certain circumstances, permit a transfer or placement upon receipt of a written agreement from the trustee(s) and the shareholder in a form satisfactory to us providing that the shareholder retains the right to direct the action to be taken by the trustees on any matter submitted to a vote by holders of Common Stock or Voting Trust Interests and recognizing our right to exercise the options referred to above and to purchase the shares, or Voting Trust Interests representing shares, if any party other than the holder or the trustee will claim or establish ownership of or interest in the shares, or Voting Trust Interests representing shares, and requiring the trustee(s) to comply with all provisions of our Certificate of Incorporation relating to the sale, transfer or other disposition of shares.

Description of Voting Trust Interests

The following description of the Voting Trust Agreement and its Voting Trust Interests representing shares of Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Voting Trust Agreement, which is incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part. We encourage you to read the Voting Trust Agreement, the Description of our Common Stock and the applicable provisions of the New York Business Corporation Law for additional information.

The Voting Trust Agreement dated March 3, 2017, which we refer to as the Voting Trust Agreement, provides for the deposit into the Voting Trust of Common Stock or any security substituted for the Common Stock (as described below under “Liquidation Rights”). Common Stock deposited in the Voting Trust will be registered in the name of the Voting Trustees in their capacities as voting trustees. Voting Trust Interests issued by the Voting Trustees are uncertificated and evidenced by a book-entry system maintained by the Voting Trustees. Common Stock deposited in the Voting Trust may not be withdrawn by the beneficial owner before the expiration or earlier termination of the Voting Trust Agreement.

Voting Trustees

Voting Trustees must be regular employees of the Company. Any Voting Trustee who for any cause, including Retirement, ceases to be a regular employee of the Company automatically ceases to be a Voting Trustee. Voting Trustees may at any time resign and may be removed by holders of Voting Trust Interests representing at least 66 2/3% of the number of shares of Common Stock deposited under the Voting Trust Agreement. No Voting Trustee who has been previously removed from office may be re-designated or elected a Voting Trustee without the approval of holders of Voting Trust Interests representing at least 66 2/3% of the Common Stock deposited under the Voting Trust Agreement.

The Voting Trustees do not have any power to sell, transfer or dispose of shares deposited with them other than to return them to Participating Shareholders in accordance with the Voting Trust Agreement.

Dividends

All dividends payable with respect to Common Stock deposited under the Voting Trust Agreement are payable to the Voting Trustees as the owners of record of these shares. The Voting Trustees will retain, under the terms of the Voting Trust Agreement, all shares of Common Stock received as a stock dividend. The Voting Trustees will make the appropriate book-entry representing Voting Trust Interests in the shares received as a dividend for a Participating Shareholder’s account. The Voting Trustees will pay or cause to be paid to the holders of Voting Trust Interests an amount equal to any cash dividends received and any distribution made to holders of Common Stock other than in cash or Common Stock or as a result of recapitalization or reclassification of the Common Stock or a reorganization of the Company.

Voting Rights

Holders of Voting Trust Interests have no right to vote with the holders of the Common Stock on matters submitted to the shareholders. The Voting Trustees are entitled in their discretion and using their best judgment to vote on or consent to the election of directors and, except as described below, the ratification, approval or disapproval of any other action or proposed action requiring a shareholder vote. The Voting Trustees, each of whom is currently a Company director, are specifically authorized to vote for themselves as directors under the terms of the Voting Trust Agreement. The Voting Trustees may not, without the consent of the holders of Voting Trust Interests representing at least 75% of the Common Stock then deposited under the Voting Trust Agreement, vote on or consent to the merger or consolidation of the Company into another corporation, the sale of all or substantially all of the Company's assets or the Company's liquidation and dissolution.

The Voting Trust Agreement may be amended or modified at any time by a majority of the Voting Trustees, the Company and the holders of Voting Trust Interests representing at least 75% of the number of shares of Common Stock deposited under the Voting Trust Agreement. Any amendment or modification could affect the rights of the then existing holders of Voting Trust Interests.

The Voting Trust Agreement will expire on March 1, 2027, unless extended or sooner terminated. The Voting Trust Agreement may be terminated at any time by a majority of the Voting Trustees or by the holders of Voting Trust Interests representing at least 75% of the Common Stock deposited. At any time within six months before the expiration of the Voting Trust Agreement, holders of Voting Trust Interests may, by agreement in writing with the Voting Trustees and the Company, extend the duration of the Voting Trust Agreement for an additional period not exceeding ten years. Any extension will be binding only upon holders of Voting Trust Interests who give their consent.

Liquidation Rights

Recapitalization or Reclassification of Common Stock. In the event of a recapitalization or reclassification of the Common Stock, the Voting Trustees will hold, under the terms of the Voting Trust Agreement, shares of voting stock issued in respect of Common Stock deposited under the Voting Trust Agreement. In this case, the appropriate book entries will be made.

Reorganization of the Company. Depending on the terms of any agreement under which the Company may be merged or consolidated into another corporation, the Voting Trustees either will hold, under the terms of the Voting Trust Agreement, any shares of voting stock of the successor corporation issued in respect of the Common Stock deposited under the Voting Trust Agreement (in which case the appropriate book entries will be made), or will distribute those shares to the holders of Voting Trust Interests based on the Common Stock represented by their Voting Trust Interests. In any event, any other consideration received as a result of a reorganization will be distributed ratably to the holders of Voting Trust Interests.

Dissolution of the Company. In the event of the dissolution and liquidation of the Company, the Voting Trustees will distribute any money, securities, rights or property received by them as the record owners of Common Stock ratably to the holders of Voting Trust Interests.

Purchase Option

Voting Trust Interests issued under the Voting Trust Agreement are held by each holder under the same terms and conditions upon which Common Stock is held under the provisions of the Company's Certificate of Incorporation.

GRAYBAR ELECTRIC COMPANY, INC.

LIST OF SUBSIDIARIES

Graybar International, Inc., a Missouri corporation

Graybar Financial Services, Inc., a Missouri corporation

Graybar Electric Limited, a Nova Scotia corporation

Graybar Canada Limited, a Nova Scotia corporation

Graybar Services, Inc., an Illinois corporation

Distribution Associates, Inc., a Missouri corporation

Graybar Business Services, Inc., a Missouri corporation

Graybar Electric Canada Limited, a Nova Scotia corporation

Graybar Newfoundland Limited, a Newfoundland and Labrador corporation

Graybar Energy Limited, an Ontario corporation

Advantage Industrial Automation, Inc., a Georgia corporation

GBE Sub, LLC, a Missouri limited liability company

Cape Electrical Supply Holdings LLC, a Delaware limited liability company

Cape Electrical Supply LLC, a Delaware limited liability company

CERTIFICATION

I, Kathleen M. Mazzarella, certify that:

- 1) I have reviewed this annual report on Form 10-K 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.

Date: March 12, 2020

/s/ KATHLEEN M. MAZZARELLA
Kathleen M. Mazzarella
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Scott S. Clifford, certify that:

- 1) I have reviewed this annual report on Form 10-K 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.

Date: March 12, 2020

/s/ SCOTT S. CLIFFORD

Scott S. Clifford

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 Principal 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 Annual Report on Form 10-K of the Company for the annual period ended December 31, 2019 (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.

/s/ KATHLEEN M. MAZZARELLA
Kathleen M. Mazzarella
President and Chief Executive Officer
(Principal Executive Officer)

March 12, 2020

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

I, Scott S. Clifford, Senior Vice President and Principal 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 Annual Report on Form 10-K of the Company for the annual period ended December 31, 2019 (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.

/s/ SCOTT S. CLIFFORD

Scott S. Clifford
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

March 12, 2020