

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



FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

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:

Title of each class
None

Trading Symbol(s)
N/A

Name of each exchange on which registered
N/A

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

YES ☒ NO ☐

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

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

YES ☐ NO ☒

Common Stock Outstanding at April 15, 2020: 22,706,215

(Number of Shares)

Graybar Electric Company, Inc. and Subsidiaries
Quarterly Report on Form 10-Q
For the Period Ended March 31, 2020
(Unaudited)

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	(Unaudited)	
	Three Months Ended	
	March 31,	
	2020	2019
<i>(Stated in millions, except per share data)</i>		
Net Sales	\$ 1,773.2	\$ 1,777.8
Cost of merchandise sold	(1,432.8)	(1,439.1)
Gross Margin	340.4	338.7
Selling, general and administrative expenses	(290.1)	(273.5)
Depreciation and amortization	(13.2)	(12.5)
Other income, net	0.6	1.3
Income from Operations	37.7	54.0
Non-operating expenses	(7.5)	(6.6)
Income before Provision for Income Taxes	30.2	47.4
Provision for income taxes	(8.7)	(13.0)
Net Income	21.5	34.4
Net income attributable to noncontrolling interests	(0.1)	(0.1)
Net Income attributable to Graybar Electric Company, Inc.	\$ 21.4	\$ 34.3
Net Income attributable to Graybar Electric Company, Inc. per share of Common Stock^(A)	\$ 0.94	\$ 1.51
Cash Dividends per share of Common Stock	\$ 0.30	\$ 0.30
Average Common Shares Outstanding^(A)	22.7	22.7

^(A)Adjusted for the declaration of a 5% stock dividend in 2019, shares related to which were issued in February 2020. Prior to the adjustment, the average common shares outstanding were 21.6 million for the three months ended March 31, 2019.

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

Graybar Electric Company, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited)	
	Three Months Ended	
	March 31,	
<i>(Stated in millions)</i>	2020	2019
Net Income	\$ 21.5	\$ 34.4
Other Comprehensive Income		
Foreign currency translation	(9.2)	2.1
Pension and postretirement benefits liability adjustment (net of tax of \$(1.9), and \$(1.3), respectively)	5.5	3.7
Total Other Comprehensive (Loss) Income	(3.7)	5.8
Comprehensive Income	\$ 17.8	\$ 40.2
Less: Comprehensive (loss) income attributable to noncontrolling interests, net of tax	(0.2)	0.2
Comprehensive Income attributable to Graybar Electric Company, Inc.	\$ 18.0	\$ 40.0

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

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

	March 31, 2020	December 31, 2019
<i>(Stated in millions, except share and per share</i>		
ASSETS	(Unaudited)	
Current Assets		
Cash and cash equivalents	\$ 169.4	\$ 60.8
Trade receivables (less allowances of \$7.0 and \$6.2, respectively)	1,138.1	1,096.6
Merchandise inventory	646.6	654.2
Other current assets	56.2	51.7
Total Current Assets	2,010.3	1,863.3
Property, at cost		
Land	79.3	79.6
Buildings	506.1	505.5
Furniture and fixtures	251.3	250.4
Software	171.3	168.6
Finance leases	18.5	18.3
Total Property, at cost	1,026.5	1,022.4
Accumulated depreciation and amortization	(606.1)	(597.2)
Net Property	420.4	425.2
Operating Lease Right-of-use Assets	125.0	117.5
Other Non-current Assets	110.3	111.7
Total Assets	\$ 2,666.0	\$ 2,517.7
LIABILITIES		
Current Liabilities		
Short-term borrowings	\$ 270.0	\$ 138.0
Current portion of long-term debt	2.4	3.8
Trade accounts payable	900.7	832.3
Accrued payroll and benefit costs	102.1	151.1
Other accrued taxes	21.6	24.7
Current operating lease liabilities	30.2	28.6
Other current liabilities	84.2	101.1
Total Current Liabilities	1,411.2	1,279.6
Postretirement Benefits Liability	69.4	69.4
Pension Liability	158.6	164.6
Long-term Debt	7.2	7.8
Non-current Operating Lease Liabilities	102.4	96.2
Other Non-current Liabilities	2.3	2.3
Total Liabilities	1,751.1	1,619.9
SHAREHOLDERS' EQUITY		
	Shares at	
Capital Stock	March 31, 2020	December 31, 2019
Common, stated value \$20.00 per share		
Authorized	50,000,000	50,000,000
Issued to voting trustees	19,064,627	18,665,064
Issued to shareholders	3,943,540	3,872,159
In treasury, at cost	(271,199)	(62,700)
Outstanding Common Stock	22,736,968	22,474,523
Advance Payments on Subscriptions to Common Stock	1.1	—
Retained Earnings	708.5	694.0
Accumulated Other Comprehensive Loss	(254.0)	(250.6)
Total Graybar Electric Company, Inc. Shareholders' Equity	910.3	892.9
Noncontrolling Interests	4.6	4.9
Total Shareholders' Equity	914.9	897.8
Total Liabilities and Shareholders' Equity	\$ 2,666.0	\$ 2,517.7

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

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

	(Unaudited)	
	Three Months Ended March 31,	
(Stated in millions)	2020	2019
Cash Flows from Operating Activities		
Net Income	\$ 21.5	\$ 34.4
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	13.2	12.5
Non-cash operating lease expense	8.2	7.1
Deferred income taxes	(1.1)	(1.8)
Net income attributable to noncontrolling interests	(0.1)	(0.1)
Changes in assets and liabilities:		
Trade receivables	(41.3)	62.8
Merchandise inventory	7.6	(37.6)
Other current assets	(4.5)	0.6
Other non-current assets	(1.1)	0.3
Trade accounts payable	68.4	30.1
Accrued payroll and benefit costs	(49.0)	(48.7)
Other current liabilities	(27.6)	(9.6)
Other non-current liabilities	(6.6)	0.5
Total adjustments to net income	(33.9)	16.1
Net cash (used) provided by operating activities	(12.4)	50.5
Cash Flows from Investing Activities		
Proceeds from disposal of property	—	0.1
Capital expenditures for property	(8.1)	(5.0)
Net cash used by investing activities	(8.1)	(4.9)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term borrowings	132.0	(15.0)
Principal payments under finance arrangements	(2.2)	(2.1)
Sale of common stock	10.5	9.9
Purchases of common stock	(4.2)	(5.5)
Purchases of noncontrolling interests' common stock	(0.1)	(0.3)
Dividends paid	(6.9)	(6.5)
Net cash provided (used) by financing activities	129.1	(19.5)
Net Increase in Cash	108.6	26.1
Cash, Beginning of Year	60.8	58.9
Cash, End of Period	\$ 169.4	\$ 85.0
Non-cash Investing and Financing Activities		
Acquisitions of equipment under finance leases	\$ 0.2	\$ 1.2
Acquisitions of assets under operating leases	\$ 16.0	\$ 9.8

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

Graybar Electric Company, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, stated in millions)

	Graybar Electric Company, Inc. Shareholders' Equity					
	Common Stock		Accumulated Other		Total	
	Common Stock	Subscribed, Unissued	Retained Earnings	Comprehensive Loss	Noncontrolling Interests	Shareholders' Equity
December 31, 2018	\$ 428.8	\$ —	\$ 678.1	\$ (240.3)	\$ 3.9	\$ 870.5
Net income			34.3		0.1	34.4
Other comprehensive income				5.7	0.1	5.8
Stock issued	8.8					8.8
Stock purchased	(5.5)				(0.3)	(5.8)
Advance payments		1.1				1.1
Dividends declared			(6.5)			(6.5)
March 31, 2019	\$ 432.1	\$ 1.1	\$ 705.9	\$ (234.6)	\$ 3.8	\$ 908.3

	Graybar Electric Company, Inc. Shareholders' Equity					
	Common Stock		Accumulated Other		Total	
	Common Stock	Subscribed, Unissued	Retained Earnings	Comprehensive Loss	Noncontrolling Interests	Shareholders' Equity
December 31, 2019	\$ 449.5	\$ —	\$ 694.0	\$ (250.6)	\$ 4.9	\$ 897.8
Net income			21.4		0.1	21.5
Other comprehensive loss				(3.4)	(0.3)	(3.7)
Stock issued	9.4					9.4
Stock purchased	(4.2)				(0.1)	(4.3)
Advance payments		1.1				1.1
Dividends declared			(6.9)			(6.9)
March 31, 2020	\$ 454.7	\$ 1.1	\$ 708.5	\$ (254.0)	\$ 4.6	\$ 914.9

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

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

1. DESCRIPTION OF THE BUSINESS

Graybar Electric Company, Inc. (“Graybar”, “Company”, “we”, “our”, or “us”) is a New York corporation, incorporated in 1925. We are engaged in the distribution of electrical and communications and data networking products and are a provider of related supply chain management and logistics services. We primarily serve customers in the construction, commercial, institutional and governmental (“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.

Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Graybar pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “Commission”) applicable to interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that our disclosures are adequate to make the information presented not misleading. The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect reported amounts. Our condensed consolidated financial statements include amounts that are based on management’s best estimates and judgments. Actual results could differ from those estimates. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2019, included in our latest Annual Report on Form 10-K.

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

Principles of Consolidation

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

Estimates

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

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 net sales for the three

months ended March 31, 2020 and 2019. 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.

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 Credit Losses

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 pooled on the aging of the receivables, specific risks identified in the receivables portfolio based on current conditions, and expected future economic conditions when necessary. 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, comprised entirely of finished goods, is stated at the lower of cost (generally determined using the last-in, first-out ("LIFO") cost method) or market. Inventories valued using the LIFO method comprised 91% of the total inventories at both March 31, 2020 and March 31, 2019. 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 and applicable discount rates.

Definite Lived Intangible Assets

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

Income Taxes

Our income tax provision is recorded in accordance with a full-year forecasted rate methodology, including discrete items in the periods in which they occur. 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 condensed consolidated financial statements. We classify interest expense and penalties as part of our provision for income taxes based upon applicable federal and state interest/underpayment percentages. We assess uncertainty regarding tax positions taken in previously filed returns and record reserves in accordance with the guidance under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740-10, "Accounting for Uncertainty in Income Taxes".

Other Postretirement Benefits

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

Pension Plan

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

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 condensed 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 condensed 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 condensed consolidated balance sheets. Lease expenses associated with short-term leases are immaterial and are recorded in the condensed 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 2020 have had or are expected to have a material impact on our condensed consolidated financial statements, except those noted below:

In June 2016, the FASB issued Accounting Standard Update ("ASU" or "Update") 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which introduced new guidance for the accounting for credit losses on certain financial instruments. The amendments in this ASU were effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and required a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. Periods presented prior to the adoption date are not adjusted.

We adopted this Update as of January 1, 2020. We determined that our trade receivables are financial instruments subject to this Update. We evaluated the accounting policies applicable to our allowance for doubtful accounts and 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. The adoption of this Update did not have a material impact on our consolidated financial statements.

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. We adopted this Update as of January 1, 2020. The adoption of this Update did not have a material impact on our consolidated financial statements.

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. We adopted this Update as of January 1, 2020. The adoption did not have a material impact on our consolidated financial statements.

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 the Update beginning on January 1, 2021.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04") that provides temporary relief to the GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative rates. This Update is effective for all entities as of March 12, 2020 through December 31, 2022. The guidance on contract modifications can be applied prospectively from any date beginning March 12, 2020 and may also be applied to modifications of existing contracts made earlier in the interim period that includes March 12, 2020. The guidance on hedging can be applied to eligible hedging relationships existing at the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of that interim period. We are currently evaluating the impact of the adoption of the Update on our contracts and our consolidated financial statements.

3. REVENUE

The following table summarizes the percentages of our net sales attributable to each of our vertical markets for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
	2020	2019
Construction	57.8 %	58.2 %
CIG	26.6	26.1
Industrial & Utility	15.6	15.7
Total net sales	100.0 %	100.0 %

Certain reclassifications have been made to the vertical market assigned to customers in the prior year's information to conform to the March 31, 2020 presentation.

We had no material contract assets, contract liabilities, or deferred contract costs recorded on the condensed consolidated balance sheet as of March 31, 2020 and December 31, 2019. In addition, for the three months ended March 31, 2020 and 2019, revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period is not material.

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

4. INCOME TAXES

Our total provision for income taxes was \$8.7 million for the three months ended March 31, 2020. We record our income tax provision using a full-year forecasted methodology, including discrete items in the period in which they occur. Our year-to-date effective tax rate for the three months ended March 31, 2020 was 28.8%.

Our unrecognized tax benefits of \$1.6 million and \$1.9 million at March 31, 2020 and December 31, 2019, respectively, are uncertain tax positions that would impact our effective tax rate if recognized. We are periodically engaged in tax return examinations, the review of statute of limitation periods, and settlements surrounding income taxes.

We classify interest expense and penalties as part of our provision for income taxes based upon applicable federal and state interest and underpayment percentages. We have accrued \$0.3 million and \$0.4 million in interest and penalties at March 31, 2020 and December 31, 2019, respectively. Interest was computed on the difference between the provision for income taxes recognized in accordance with GAAP and the amount of benefit previously taken or expected to be taken in our federal, state, and local income tax returns.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP). At this point we do not believe that the CARES Act will have a material impact on our income tax provision for 2020. We continue to evaluate the impact of the CARES Act on our financial position, results of operations, and cash flows.

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 limitations 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.

5. DEBT

Revolving Credit Facility

At March 31, 2020 and December 31, 2019, we, along with Graybar Canada Limited, our Canadian operating subsidiary ("Graybar Canada"), had an unsecured, five-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.

We were in compliance with all covenants under the Amended Credit Agreement as of March 31, 2020 and December 31, 2019.

There were \$270.0 million and \$138.0 million in short-term borrowings outstanding under the Amended Credit Agreement at March 31, 2020 and December 31, 2019, respectively.

Short-term borrowings outstanding during the three months ended March 31, 2020 and 2019 ranged from a minimum of \$55.0 million and \$120.0 million to a maximum of \$270.0 million and \$250.0 million, respectively.

At March 31, 2020, we had unused lines of credit under the Amended Credit Agreement amounting to \$479.5 million available, compared to \$611.5 million at December 31, 2019. These lines are available to meet our short-term cash requirements and are subject to annual fees of up to 40 basis points (0.40%).

Interest expense, net was \$0.9 million and \$1.8 million for the three months ended March 31, 2020 and 2019, 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 in 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 March 31, 2020 and December 31, 2019.

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 Agreement as of March 31, 2020 and December 31, 2019.

Letters of Credit

At March 31, 2020 and December 31, 2019, we had total letters of credit of \$5.6 million outstanding, of which \$0.5 million were issued under the Amended Credit Agreement. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

6. 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 March 31, 2020 and December 31, 2019.

The net periodic benefit cost for the three months ended March 31, 2020 and 2019 includes the following components:

Components of Net Periodic Benefit Cost	Pension Benefits		Postretirement Benefits	
	Three Months Ended		Three Months Ended	
	March 31,		March 31,	
	2020	2019	2020	2019
Selling, general, and administrative expenses:				
Service cost	\$ 7.2	\$ 6.5	\$ 0.5	\$ 0.5
Total selling, general, and administrative expenses	\$ 7.2	\$ 6.5	\$ 0.5	\$ 0.5
Non-operating expenses:				
Interest cost	7.0	7.6	0.6	0.8
Expected return on plan assets	(8.4)	(8.6)	—	—
Amortization of:				
Net actuarial loss	7.2	4.9	0.2	0.1
Total non-operating expenses	\$ 5.8	\$ 3.9	\$ 0.8	\$ 0.9
Net periodic benefit cost	\$ 13.0	\$ 10.4	\$ 1.3	\$ 1.4

We made qualified and nonqualified pension contributions totaling \$11.8 million during the three months ended March 31, 2020 and \$1.7 million during the three months ended March 31, 2019. Additional contributions of \$30.0 million are expected to be paid during the remainder of 2020, but may change at our discretion.

7. 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. A new Voting Trust Agreement was established effective March 3, 2017, which expires by its terms on March 1, 2027. At March 31, 2020, approximately 83% of the total shares of common stock was held in the voting trust. The participation of shareholders in the voting trust is voluntary at the time the voting trust is created, but is irrevocable during its term. Shareholders who elect not to participate in the voting trust hold their common stock as shareholders of record. Shareholders may elect to participate in the voting trust at any time during the term of the voting trust.

No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. We also have the option to purchase at the issue price the common shares of any shareholder who ceases to be an employee for any reason other than death or "retirement" (as defined in our amended restated certificate of incorporation), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

Cash dividends paid were \$6.9 million and \$6.5 million for the three months ended March 31, 2020 and 2019, respectively.

We also have authorized 10,000,000 shares of Delegated Authority Preferred Stock ("preferred stock"), par value one cent (\$0.01). The preferred stock may be issued in one or more series, with the designations, relative rights, preferences, and limitations of shares of each such series being fixed by a resolution of our Board of Directors. There were no shares of preferred stock outstanding at March 31, 2020 and December 31, 2019.

8. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table represents amounts reclassified from accumulated other comprehensive loss for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	Amortization of Pension and Other Postretirement Benefits Items		Amortization of Pension and Other Postretirement Benefits Items	
	Actuarial Losses Recognized	Total	Actuarial Losses Recognized	Total
Affected Line in Condensed Consolidated Statement of Income:				
Non-operating expenses	\$ 7.4	\$ 7.4	\$ 5.0	\$ 5.0
Tax benefit	(1.9)	(1.9)	(1.3)	(1.3)
Total reclassifications for the period, net of tax	\$ 5.5	\$ 5.5	\$ 3.7	\$ 3.7

The following table represents the activity included in accumulated other comprehensive loss for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020			Three Months Ended March 31, 2019		
	Foreign Currency	Pension and Other Postretirement Benefits	Total	Foreign Currency	Pension and Other Postretirement Benefits	Total
Beginning balance January 1,	\$ (7.7)	\$ (242.9)	\$ (250.6)	\$ (12.4)	\$ (227.9)	\$ (240.3)
Other comprehensive (loss) income before reclassifications	(8.9)	—	(8.9)	2.0	—	2.0
Amounts reclassified from accumulated other comprehensive income (net of tax \$(1.9) and \$(1.3))	—	5.5	5.5	—	3.7	3.7
Net current-period other comprehensive (loss) income	(8.9)	5.5	(3.4)	2.0	3.7	5.7
Ending balance March 31,	\$ (16.6)	\$ (237.4)	\$ (254.0)	\$ (10.4)	\$ (224.2)	\$ (234.6)

9. COMMITMENTS AND CONTINGENCIES

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

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

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

The following discussion should be read in conjunction with our accompanying unaudited condensed consolidated financial statements and notes thereto, and our audited consolidated financial statements, notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended December 31, 2019, included in our Annual Report on Form 10-K for such period as filed with the United States Securities and Exchange Commission (the "Commission"). The results shown herein are not necessarily indicative of the results to be expected in any future periods.

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes", "projects", "expects", "anticipates", "estimates", "intends", "strategy", "plan", "may", "will", "would", "will be", "will continue", "will likely result", and other similar expressions. We intend such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the PSLRA. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse impact on our operations and future prospects on a consolidated basis include, but are not limited to: the impact of the coronavirus (COVID-19) pandemic, 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 Commission. Actual results and the timing of events could differ materially from the forward-looking statements as a result of certain factors, a number of which are outlined in Item 1A., "Risk Factors", of our Annual Report on Form 10-K for the year ended December 31, 2019 as well as Part II, Item 1A., "Risk Factors", included herein.

All dollar amounts, except per share data, are stated in millions in the following discussion and accompanying tables.

Background

Graybar Electric Company, Inc. ("Graybar", "Company", "we", "our", or "us") is a New York corporation, incorporated in 1925. We are engaged in the distribution of electrical and communications and data networking products and are a provider of related supply chain management and logistics services. We primarily serve customers in the construction, 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 ("OEMs"). We purchase all the products we sell from others, and we neither manufacture nor contract to manufacture any products we sell. Our business activity is primarily based in the United States ("U.S."). We also have subsidiary operations with distribution facilities in Canada and Puerto Rico.

Our common stock is 100% owned by active and retired employees, and there is no public trading market for our common stock. No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer, or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. We also have the option to purchase at the issue price the common shares of any shareholder who ceases to be an employee for any reason other than death or "retirement" (as defined in our amended restated certificate of incorporation), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

Business Overview

Net sales for the three months ended March 31, 2020 declined \$4.6 million, or 0.3%, to \$1,773.2 million, when compared to \$1,777.8 million for the same three months ended March 31, 2019. Gross margin increased \$1.7 million, or 0.5%, to \$340.4 million for the three months ended March 31, 2020, compared to gross margin of \$338.7 million for the same three months ended March 31, 2019. Gross margin rate was 19.2% for the three months ended March 31, 2020 compared to 19.1% for the same three-month period last year.

Selling, general, and administrative (SG&A) expenses increased \$16.6 million, or 6.1%, to \$290.1 million from \$273.5 million for the three months ended March 31, 2019. The increase was primarily due to increases in salary and benefit costs, as well as rent and utility expenses. As a result of the increase in SG&A expenses outpacing the increase in gross margin, income from operations declined \$16.3 million, or 30.2%, to \$37.7 million for the three months ended March 31, 2020, from \$54.0 million for the same period last year.

Net income attributable to Graybar Electric Company, Inc. decreased by \$12.9 million, or 37.6%, to \$21.4 million for the three months ended March 31, 2020 compared to \$34.3 million for the same three months ended March 31, 2019.

During the first quarter of 2020, the world financial markets and world economy experienced unprecedented instability as a result of the COVID-19 pandemic. We expect the overall general economic conditions to continue to deteriorate during the coming months as the markets and economy absorb the impact of the much-publicized turmoil in global and financial markets caused by COVID-19. This uncertainty continues to evolve, and we believe we are taking appropriate steps to address related risks. We believe that our current low levels of debt and on-going efforts to optimize our working capital position us well to weather the continued economic downturn.

Consolidated Results of Operations

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

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 three months ended March 31, 2020 and 2019:

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	Dollars	Percent	Dollars	Percent
Net Sales	\$ 1,773.2	100.0 %	\$ 1,777.8	100.0 %
Cost of merchandise sold	(1,432.8)	(80.8)	(1,439.1)	(80.9)
Gross Margin	340.4	19.2	338.7	19.1
Selling, general and administrative expenses	(290.1)	(16.4)	(273.5)	(15.5)
Depreciation and amortization	(13.2)	(0.7)	(12.5)	(0.7)
Other income, net	0.6	—	1.3	0.1
Income from Operations	37.7	2.1	54.0	3.0
Non-operating expenses	(7.5)	(0.4)	(6.6)	(0.4)
Income before Provision for Income Taxes	30.2	1.7	47.4	2.6
Provision for income taxes	(8.7)	(0.5)	(13.0)	(0.7)
Net Income	21.5	1.2	34.4	1.9
Net income attributable to noncontrolling interests	(0.1)	—	(0.1)	—
Net Income attributable to Graybar Electric Company, Inc.	\$ 21.4	1.2 %	\$ 34.3	1.9 %

Net sales decreased to \$1,773.2 million for the three months ended March 31, 2020, compared to \$1,777.8 million for the three months ended March 31, 2019, a decrease of \$4.6 million, or 0.3%. Net sales in our construction and industrial & utility vertical markets decreased by 1.1%, and 0.5%, respectively, for the three months ended March 31, 2020, compared to the same three-month period of 2019. Net sales in our CIG vertical market increased by 1.7% for the three months ended March 31, 2020, compared to the same three-month period of 2019.

Gross margin increased \$1.7 million, or 0.5%, to \$340.4 million for the three months ended March 31, 2020, from \$338.7 million for the three months ended March 31, 2019. Our gross margin as a percent of net sales totaled 19.2% for the three months ended March 31, 2020 compared to 19.1% for the same three-month period of 2019.

Selling, general and administrative expenses increased \$16.6 million, or 6.1%, to \$290.1 million, for the three months ended March 31, 2020, compared to \$273.5 million for the three months ended March 31, 2019, primarily due to higher salary and benefit-related costs, and higher rent and utility expenses for the three months ended March 31, 2020. SG&A expenses as a percentage of net sales were 16.4% for the three months ended March 31, 2020, up from 15.5% for the three months ended March 31, 2019.

Depreciation and amortization for the three months ended March 31, 2020 increased \$0.7 million, or 5.6%, to \$13.2 million from \$12.5 million for the same three-month period in 2019, due to an increase in property, at cost. Total property, at cost, at March 31, 2020 was \$1,026.5 million, an increase of \$32.6 million, or 3.3%, when compared to total property, at cost, at March 31, 2019 of \$993.9 million. Depreciation and amortization as a percentage of net sales remained constant at 0.7% for the three months ended March 31, 2020 and 2019.

Non-operating expenses increased \$0.9 million, or 13.6%, to \$7.5 million for the three months ended March 31, 2020, compared to \$6.6 million for the same period of 2019. The increase was due to an increase in non-service cost components of net periodic benefit costs of \$1.8 million offset by a decrease in interest expense, net of \$0.9 million for the three months ended March 31, 2020, compared to the same three-month period in 2019. The decrease in interest expense, net was due to lower interest rates and lower levels of average outstanding short-term borrowings for the three months ended March 31, 2020, compared to the same three-month period in 2019.

Income before provision for income taxes totaled \$30.2 million for the three months ended March 31, 2020, a decrease of \$17.2 million, or 36.3%, from \$47.4 million for the three months ended March 31, 2019. The decrease was primarily due to increases in SG&A expenses and non-operating expenses that outpaced our growth in gross margin.

Our total provision for income taxes decreased \$4.3 million, or 33.1%, to \$8.7 million for the three months ended March 31, 2020, compared to \$13.0 million for the same period in 2019. The decrease in our provision for income taxes year over year resulted from decreased pretax income. Our year-to-date effective tax rate was 28.8% for the three months ended March 31, 2020, compared to 27.4% for the same period in 2019. The effective tax rate for the three months ended March 31, 2020 was higher than the 21.0% U.S. federal statutory rate primarily due to state, local, and foreign income taxes. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP). The CARES Act did not impact the provision for income taxes or the effective tax rate for the three months ended March 31, 2020.

Net income attributable to Graybar Electric Company, Inc. for the three months ended March 31, 2020 decreased \$12.9 million, or 37.6%, to \$21.4 million from \$34.3 million for the three months ended March 31, 2019.

Financial Condition and Liquidity

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

We have historically funded our working capital requirements using cash flows generated from 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 with cash from working capital management and short-term bank lines of credit.

Our cash and cash equivalents at March 31, 2020 were \$169.4 million, compared to \$60.8 million at December 31, 2019, an increase of \$108.6 million, or 178.6%. Our short-term borrowings increased by \$132.0 million, or 95.7%, during the three-month period to \$270.0 million at March 31, 2020 from \$138.0 million at December 31, 2019. The increase in cash and short-term borrowings was to enhance immediate liquidity in light of the circumstances surrounding the COVID-19 pandemic. Current assets exceeded current liabilities by \$599.1 million at March 31, 2020, an increase of \$15.4 million, or 2.6%, from \$583.7 million at December 31, 2019.

Operating Activities

Cash flows used by operating activities for the three months ended March 31, 2020 was \$12.4 million, compared to cash provided by operating activities of \$50.5 million for the three months ended March 31, 2019, a decrease of \$62.9 million. Cash used by operating activities for the three months ended March 31, 2020 was primarily attributable to net income of \$21.5 million, an increase in trade accounts payable of \$68.4 million from December 31, 2019 to March 31, 2020, more than offset by a decrease in accrued payroll and benefit costs of \$49.0 million, an increase in trade receivables of \$41.3 million, and a decrease in other current liabilities of \$27.6 million from December 31, 2019 to March 31, 2020.

The average number of days of sales in trade receivables for the three-month period ended March 31, 2020 increased modestly compared to the same three-month period ended March 31, 2019. The days in inventory improved significantly for the three months ended March 31, 2020, compared to the three months ended March 31, 2019.

Investing Activities

Net cash used by investing activities totaled \$8.1 million for the three months ended March 31, 2020, compared to net cash used by investing activities of \$4.9 million for the same three month period in 2019, an increase of \$3.2 million. The increase was due to higher capital expenditures in the three months ended March 31, 2020, compared to the three months ended March 31, 2019.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2020 totaled \$129.1 million, compared to net cash used by financing activities of \$19.5 million for the three months ended March 31, 2019, an increase of \$148.6 million. The increase was primarily due to an increase in short-term borrowings during the three months ended March 31, 2020 compared to payments made on short-term borrowings in the three months ended March 31, 2019.

Liquidity

Our cash and cash equivalents at March 31, 2020 were \$169.4 million, compared to \$60.8 million at December 31, 2019. We also had a \$750.0 million revolving credit facility with \$479.5 million in available capacity at March 31, 2020, compared to available capacity of \$611.5 million at December 31, 2019. At March 31, 2020 and December 31, 2019, 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 March 31, 2020 and December 31, 2019. For further discussion related to our revolving credit facility and our Shelf Agreements, refer to Note 5, "Debt", of the notes to the condensed consolidated financial statements located in Item 1.

At March 31, 2020 and December 31, 2019, we had total letters of credit of \$5.6 million outstanding, of which \$0.5 million was issued under the revolving credit facility. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

New Accounting Standards Updates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the policies, procedures, controls, or risk profile from those provided in Item 7A., "Quantitative and Qualitative Disclosures About Market Risk", of our Annual Report on Form 10-K for the year ended December 31, 2019.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2020, was performed under the supervision and with the participation of management. Based on that evaluation, our management, including the Principal Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal control over financial reporting

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

PART II – OTHER INFORMATION

Item 1A. Risk Factors

A pandemic, epidemic or other public health emergency, such as the recent outbreak of coronavirus disease 2019 (COVID-19), could continue to have a material adverse effect on our business, results of operations, financial condition and cash flows.

Although we are a company operating as an essential business supporting critical infrastructure, as defined by the U.S. Department of Homeland Security, and continue to operate across our footprint consistent with federal guidelines and with state and local orders to date, COVID-19 has begun to have an impact on our net sales and may have further negative impacts on our operations, supply chain, transportation networks and customers. Preventative and precautionary measures that governments are taking, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments, school closures, and other measures that we and our customers are taking may reduce our gross margin. The progression of and global response to the COVID-19 outbreak has begun to cause and increases the risk of slowdowns in construction activities and related permitting and material delivery delays.

A continued economic downturn resulting from the COVID-19 epidemic and related response could adversely affect demand for the products and services we provide to our customers. If our customers are directly impacted by business curtailments or weak market conditions, this may result in higher than expected bad debt losses, which could impact our results of operations and our cash flows from operating activities. In the event that our operating performance or that of our suppliers were to decline, our vendor allowances would also be reduced, which would negatively impact our results of operation and our financial condition. We continue to carefully monitor both our customers and suppliers for signs of deterioration in their financial condition.

While we expect this matter to continue to negatively impact our results of operations, cash flows and financial position until the COVID-19 related effects moderate, the current level of uncertainty over the economic and operational impacts of COVID-19 means the related financial impact cannot be reasonably estimated at this time.

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

Our common stock is 100% owned by active and retired employees, and there is no public trading market for our common stock. Since 1928, substantially all of the issued and outstanding shares of common stock have been held of record by voting trustees under successive voting trust agreements. A new Voting Trust Agreement was established effective March 3, 2017, which expires by its terms on March 1, 2027. At March 31, 2020, approximately 83% of the common stock was held in the voting trust. The participation of shareholders in the voting trust is voluntary at the time the voting trust is created, but is irrevocable during its term. Shareholders who elect not to participate in the voting trust hold their common stock as shareholders of record. Shareholders may elect to participate in the voting trust at any time during the term of the voting trust.

No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer, or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. We also have the option to purchase at the issue price the common shares of any shareholder who ceases to be an employee for any cause other than death or "retirement" (as defined in our amended restated certificate of incorporation), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
January 1 - January 31, 2020	79,781	\$20.00	N/A
February 1 - February 29, 2020	64,101	\$20.00	N/A
March 1 - March 31, 2020	64,617	\$20.00	N/A
Total	208,499	\$20.00	N/A

Item 6. Exhibits.

3.1	<u>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.</u>
3.2	<u>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.</u>
4.2	<u>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.</u>
9	Voting Trust Agreement dated as of March 3, 2017, included at Exhibit 4.2 above.
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 of Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 - Principal Financial Officer</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)

SIGNATURES

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

GRAYBAR ELECTRIC COMPANY, INC.

April 28, 2020

Date

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella
President and Chief Executive Officer
(Principal Executive Officer)

April 28, 2020

Date

/s/ SCOTT S. CLIFFORD

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

CERTIFICATION

I, Kathleen M. Mazzarella, certify that:

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

Date: April 28, 2020

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President, Chief Executive Officer and Principal Executive Officer

CERTIFICATION

I, Scott S. Clifford, certify that:

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

Date: April 28, 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 Chief Executive Officer of Graybar Electric Company, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2020 (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.

Date: April 28, 2020

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President, Chief Executive Officer and Principal Executive Officer

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

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

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2020 (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.

Date: April 28, 2020

/s/ SCOTT S. CLIFFORD

Scott. S. Clifford

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)