

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



FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _____ to _____

Commission File Number: 000-00255

GRAYBAR ELECTRIC COMPANY, INC.

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

13-0794380

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

34 North Meramec Avenue, St. Louis, Missouri

(Address of principal executive offices)

63105

(Zip Code)

(314) 573 - 9200

(Registrant's telephone number, including area code)

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

YES ☒ NO ☐

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

YES ☒ NO ☐

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

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☐

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

YES ☐ NO ☒

Common Stock Outstanding at July 15, 2016: 16,570,271

(Number of Shares)

Graybar Electric Company, Inc. and Subsidiaries
Quarterly Report on Form 10-Q
For the Period Ended June 30, 2016
(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 June 30,		Six Months Ended June 30,	
<i>(Stated in thousands, except per share data)</i>	2016	2015	2016	2015
Gross Sales	\$ 1,637,514	\$ 1,576,441	\$ 3,109,208	\$ 2,976,304
Cash discounts	(6,993)	(6,433)	(13,207)	(12,518)
Net Sales	1,630,521	1,570,008	3,096,001	2,963,786
Cost of merchandise sold	(1,324,922)	(1,276,663)	(2,510,755)	(2,411,415)
Gross Margin	305,599	293,345	585,246	552,371
Selling, general and administrative expenses	(250,565)	(240,909)	(495,297)	(472,976)
Depreciation and amortization	(11,564)	(10,813)	(22,875)	(21,122)
Other income, net	517	1,217	2,809	5,559
Income from Operations	43,987	42,840	69,883	63,832
Interest expense, net	(763)	(697)	(1,420)	(1,210)
Income before Provision for Income Taxes	43,224	42,143	68,463	62,622
Provision for income taxes	(17,530)	(16,998)	(27,672)	(24,983)
Net Income	25,694	25,145	40,791	37,639
Less: Net income attributable to noncontrolling interests	(59)	(57)	(111)	(91)
Net Income attributable to Graybar Electric Company, Inc.	\$ 25,635	\$ 25,088	\$ 40,680	\$ 37,548
Net Income per share of Common Stock^(A)	\$ 1.55	\$ 1.53	\$ 2.46	\$ 2.29
Cash Dividends per share of Common Stock	\$ 0.30	\$ 0.30	\$ 0.60	\$ 0.60
Average Common Shares Outstanding^(A)	16,569	16,386	16,555	16,398

^(A) Adjusted for the declaration of a 2.5% stock dividend in 2015, shares related to which were issued in February 2016. Prior to the adjustment, the average common shares outstanding were 15,987 and 15,998 for the three and six months ended June 30, 2015, respectively.

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

Graybar Electric Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited)			
	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(Stated in thousands)</i>	2016	2015	2016	2015
Net Income	\$ 25,694	\$ 25,145	\$ 40,791	\$ 37,639
Other Comprehensive Income				
Foreign currency translation	56	1,703	5,160	(4,656)
Pension and postretirement benefits liability adjustment (net of tax of \$(1,696), \$(1,918), \$(3,524), and \$(3,763), respectively)	2,662	3,011	5,534	5,909
Total Other Comprehensive Income	2,718	4,714	10,694	1,253
Comprehensive Income	\$ 28,412	\$ 29,859	\$ 51,485	\$ 38,892
Less: Comprehensive income (loss) attributable to noncontrolling interests, net of tax	69	116	362	(73)
Comprehensive Income attributable to Graybar Electric Company, Inc.	\$ 28,343	\$ 29,743	\$ 51,123	\$ 38,965

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

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

	June 30, 2016	December 31, 2015
<i>(Stated in thousands, except share and per share data)</i>		
ASSETS	(Unaudited)	
Current Assets		
Cash and cash equivalents	\$ 40,662	\$ 37,931
Trade receivables (less allowances of \$5,827 and \$5,879, respectively)	978,068	928,276
Merchandise inventory	620,023	518,288
Other current assets	28,621	31,305
Total Current Assets	1,667,374	1,515,800
Property, at cost		
Land	78,075	75,968
Buildings	446,419	443,137
Furniture and fixtures	279,060	271,605
Software	87,313	85,423
Capital leases	32,570	32,543
Total Property, at cost	923,437	908,676
Less – accumulated depreciation and amortization	(494,817)	(474,810)
Net Property	428,620	433,866
Other Non-current Assets	74,398	99,877
Total Assets	\$ 2,170,392	\$ 2,049,543
LIABILITIES		
Current Liabilities		
Short-term borrowings	\$ 163,490	\$ 104,978
Current portion of long-term debt	4,211	6,558
Trade accounts payable	845,602	766,089
Accrued payroll and benefit costs	70,307	111,069
Other accrued taxes	17,560	16,880
Other current liabilities	70,431	64,783
Total Current Liabilities	1,171,601	1,070,357
Postretirement Benefits Liability	69,992	70,303
Pension Liability	160,889	185,211
Long-term Debt	7,692	10,272
Other Non-current Liabilities	24,457	25,254
Total Liabilities	1,434,631	1,361,397
SHAREHOLDERS' EQUITY		
	Shares at	
Capital Stock	June 30, 2016	December 31, 2015
Common, stated value \$20.00 per share		
Authorized	50,000,000	50,000,000
Issued to voting trustees	14,195,548	13,668,055
Issued to shareholders	2,767,036	2,721,926
In treasury, at cost	(341,019)	(65,890)
Outstanding Common Stock	16,621,565	16,324,091
Advance Payments on Subscriptions to Common Stock	511	—
Retained Earnings	579,483	548,780
Accumulated Other Comprehensive Loss	(179,992)	(190,435)
Total Graybar Electric Company, Inc. Shareholders' Equity	732,433	684,827
Noncontrolling Interests	3,328	3,319
Total Shareholders' Equity	735,761	688,146
Total Liabilities and Shareholders' Equity	\$ 2,170,392	\$ 2,049,543

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

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

	(Unaudited)	
	Six Months Ended June 30,	
(Stated in thousands)	2016	2015
Cash Flows from Operations		
Net Income	\$ 40,791	\$ 37,639
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	22,875	21,122
Deferred income taxes	2,585	(3,205)
Net gains on disposal of property	(1,719)	(4,355)
Net income attributable to noncontrolling interests	(111)	(91)
Changes in assets and liabilities:		
Trade receivables	(49,792)	(23,004)
Merchandise inventory	(101,735)	(55,818)
Other current assets	2,684	17,928
Other non-current assets	19,006	2,806
Trade accounts payable	79,513	30,155
Accrued payroll and benefit costs	(40,762)	(64,013)
Other current liabilities	9,589	(3,752)
Other non-current liabilities	(16,373)	2,901
Total adjustments to net income	(74,240)	(79,326)
Net cash used by operations	(33,449)	(41,687)
Cash Flows from Investing Activities		
Proceeds from disposal of property	3,039	9,115
Capital expenditures for property	(16,547)	(50,767)
Acquisition of business, net of cash acquired	—	(18,302)
Net cash used by investing activities	(13,508)	(59,954)
Cash Flows from Financing Activities		
Net increase in short-term borrowings	58,512	117,846
Repayment of long-term debt	(1,853)	(1,820)
Principal payments under capital leases	(3,101)	(2,940)
Sale of common stock	11,963	11,022
Purchases of common stock	(5,503)	(7,974)
Purchases of noncontrolling interests' common stock	(353)	(97)
Dividends paid	(9,977)	(9,616)
Net cash provided by financing activities	49,688	106,421
Net Increase in Cash	2,731	4,780
Cash, Beginning of Year	37,931	33,758
Cash, End of Period	\$ 40,662	\$ 38,538
Non-cash Investing and Financing Activities		
Acquisitions of equipment under capital leases	\$ 27	\$ 5,292

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

Graybar Electric Company, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited, stated in thousands)

Graybar Electric Company, Inc. Shareholders' Equity						
	Common Stock	Common Stock Subscribed, Unissued	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity
December 31, 2014	\$ 317,199	\$ —	\$ 513,672	\$ (152,193)	\$ 3,303	\$ 681,981
Net income			37,548		91	37,639
Other comprehensive income (loss)				1,417	(164)	1,253
Stock issued	10,105					10,105
Stock purchased	(7,974)				(97)	(8,071)
Advance payments		917				917
Dividends declared			(9,616)			(9,616)
June 30, 2015	\$ 319,330	\$ 917	\$ 541,604	\$ (150,776)	\$ 3,133	\$ 714,208

Graybar Electric Company, Inc. Shareholders' Equity						
	Common Stock	Common Stock Subscribed, Unissued	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Shareholders' Equity
December 31, 2015	\$ 326,482	\$ —	\$ 548,780	\$ (190,435)	\$ 3,319	\$ 688,146
Net income			40,680		111	40,791
Other comprehensive income				10,443	251	10,694
Stock issued	11,452					11,452
Stock purchased	(5,503)				(353)	(5,856)
Advance payments		511				511
Dividends declared			(9,977)			(9,977)
June 30, 2016	\$ 332,431	\$ 511	\$ 579,483	\$ (179,992)	\$ 3,328	\$ 735,761

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

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

1. DESCRIPTION OF THE BUSINESS

Graybar Electric Company, Inc. ("Graybar", "Company", "we", "our", or "us") is a New York corporation, incorporated in 1925. We are engaged in the distribution of electrical and communications and data networking products and are a provider of related supply chain management and logistics services. We primarily serve customers in the construction, and commercial, institutional and government ("CIG"), as well as the industrial and 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"). All products sold by us are purchased by us from others, and we neither manufacture nor contract to manufacture any products that we sell. Our business activity is primarily with customers 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. Certain reclassifications were made to prior year amounts to conform to the 2016 presentation. 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, 2015, included in our latest Annual Report on Form 10-K.

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

Principles of Consolidation

The 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 Quarterly Report on Form 10-Q with the Commission. No material subsequent events have occurred since June 30, 2016 that require recognition or disclosure in these financial statements.

Revenue Recognition

Revenue is recognized when evidence of a customer arrangement exists, prices are fixed and determinable, product title, ownership and risk of loss transfers to the customer, and collectability is reasonably assured. Revenues recognized are primarily for product sales, but also include freight and handling charges. Our standard shipping terms are FOB shipping point, under which product title passes to the customer at the time of shipment. We also earn revenue for services provided to customers for supply chain management and logistics services. Service revenue is recognized when services are rendered and completed. Revenue is reported net of all taxes assessed by governmental authorities as a result of revenue-producing transactions, primarily sales tax.

Outgoing Freight Expenses

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Merchandise Inventory

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

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

Vendor Allowances

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

Property and Depreciation

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

Credit Risk

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

Fair Value

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

Foreign Currency Exchange Rate

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

Goodwill

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

Definite Lived Intangible Assets

The cost of intangible assets with determinable useful lives is amortized to reflect the pattern of economic benefits consumed, either on a straight-line or accelerated basis over the estimated periods benefited. Customer relationships, trade names and other non-contractual intangible assets with determinable lives are amortized over periods generally ranging from 5 to 20 years. Intangible assets are tested for impairment if events or circumstances occur indicating that the respective asset might be impaired.

Income Taxes

We recognize deferred tax assets and liabilities to reflect the future tax consequences of events that have been recognized in the financial statements or tax returns. Uncertainty exists regarding tax positions taken in previously filed tax returns still subject to examination and positions expected to be taken in future returns. A deferred tax asset or liability results from the temporary difference between an item's carrying value as reflected in the financial statements and its tax basis, and is calculated using enacted applicable tax rates. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, a valuation allowance is established. Changes in the valuation allowance, when recorded, are included in the provision for income taxes in the consolidated financial statements. We classify interest expense and penalties as part of our provision for income taxes based upon applicable federal and state interest/underpayment percentages.

Other Postretirement Benefits

We account for postretirement benefits other than pensions by accruing the costs of benefits to be provided over the 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 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.

New Accounting Standards

No new accounting standards that were issued or became effective during 2016 have had or are expected to have a material impact on our consolidated financial statements except those noted below:

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 2016-02, "Leases (Topic 842)". The core principle of Topic 842 requires that a lessee should recognize the assets and liabilities on the balance sheet and disclose key information about leasing arrangements. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The guidance is required to be adopted at the earliest period presented using a modified retrospective approach. We are currently evaluating the impact the provisions will have on our consolidated financial statements and whether we will adopt the guidance early.

In April 2015, FASB issued ASU 2015-05, "Intangibles-Goodwill and Other-Internal-use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement". This Update provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract and expensed as services are received. The Update is effective for fiscal years beginning after December 15, 2015 and interim periods. We adopted this Update on January 1, 2016. The adoption of this standard did not have a material impact on our results of operation, financial position, or cash flows.

In February 2015, FASB issued ASU 2015-02, "Consolidation". The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. This ASU is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. We adopted this Update on January 1, 2016. The adoption of this standard did not have a material impact on our results of operation, financial position, or cash flows.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which provides guidance on a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific guidance. In July 2015, the FASB deferred the effective date of the Update for one year. The Update will now be effective for public business entities for annual reporting periods, including interim reporting periods, beginning after December 15, 2017.

The new standard provides for two alternative implementation methods. The first is to apply the new standard retrospectively to each prior reporting period presented. This method allows the use of certain practical expedients. The second method is to apply the new standard retrospectively in the year of initial adoption and record a cumulative effect adjustment for the impact of adjusting contracts open at the date of adoption. Under this transition method, we would apply this guidance retrospectively only to contracts that are not completed contracts at the date of initial application, which for us will be January 1, 2018. We would then recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. This method also requires us to disclose comparative information for the year of adoption.

In March 2016, FASB issued ASU 2016-08 "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)". The amendments in this Update do not change the core principle of the guidance stated in ASU 2014-09. Instead, the amendments in this ASU are intended to further clarify the implementation guidance on principal versus agent considerations. ASU 2016-08 will have the same effective date and transition requirements as the new revenue standard issued in ASU 2014-09.

We continue to determine which method we will use to implement the new standard and to assess the impact the new standard is expected to have on the consolidated financial statements or on other matters or aspects of our business.

3. 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 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 have accrued \$967 and \$907 in interest and penalties at June 30, 2016 and December 31, 2015, respectively. Interest was computed on the difference between the provision for income taxes recognized in accordance with GAAP and the amount of benefit previously taken or expected to be taken in our federal, state, and local income tax returns.

Our federal income tax returns for the tax years 2012 and forward are available for examination by the United States Internal Revenue Service ("IRS"). The statute of limitations for the 2012 federal return will expire on September 15, 2016, unless extended by consent. Our state income tax returns for 2011 through 2015 remain subject to examination by various state authorities with the latest period closing on December 31, 2020. We have not extended the statutes of limitations in any state jurisdictions with respect to years prior to 2011.

Our unrecognized tax benefits of \$2,482 and \$2,247 at June 30, 2016 and December 31, 2015, 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.

4. 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. At June 30, 2016, approximately 83% of the common stock was held in a voting trust that expires by its terms on March 15, 2017. 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.

No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. Additionally, a shareholder is entitled to any cash dividends, if any, accrued for the quarter in which the purchase offer is made, adjusted pro rata for the number of days such shares were held prior to the dividend record date. 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 on a pension (except a deferred pension), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

Cash dividends declared were \$4,994 and \$4,801 for the three months ended June 30, 2016 and 2015, respectively. Cash dividends declared were \$9,977 and \$9,616 for the six months ended June 30, 2016 and 2015, respectively.

5. DEBT

Revolving Credit Facility

At June 30, 2016 and December 31, 2015, we along with Graybar Canada Limited, our Canadian operating subsidiary ("Graybar Canada"), had an unsecured, five-year, \$550,000 revolving credit agreement maturing in June 2019 with Bank of America, N.A. and the other lenders named therein (the "Credit Agreement"), which includes a combined letter of credit sub-facility of up to \$50,000, a U.S. swing line loan facility of up to \$50,000, and a Canadian swing line loan facility of up to \$20,000. The Credit Agreement includes a \$100,000 sublimit (in U.S. or Canadian dollars) for borrowings by Graybar Canada and contains an accordion feature, which allows us to request increases to the aggregate borrowing commitments of up to \$300,000.

The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, including limitations on us and our subsidiaries with respect to indebtedness, 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), 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 that we are subject to during the term of the Credit Agreement. We were in compliance with all these covenants as of June 30, 2016 and December 31, 2015.

We had total letters of credit of \$5,244 and \$4,994 outstanding, of which none were issued under the Credit Agreement at June 30, 2016 and December 31, 2015. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

There were \$163,490 and \$104,978 in short-term borrowings outstanding under the Credit Agreement at June 30, 2016 and December 31, 2015, respectively.

Short-term borrowings outstanding during the six months ended June 30, 2016 and 2015 ranged from a minimum of \$105,014 and \$35,981 to a maximum of \$225,097 and \$184,188, respectively.

At June 30, 2016, we had unused lines of credit under the Credit Agreement amounting to \$386,510 available, compared to \$445,022 at December 31, 2015. 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%).

Private Placement Shelf Agreement

At June 30, 2016 and December 31, 2015, we had an uncommitted \$100,000 private placement Shelf Agreement with Prudential Investment Management, Inc. (the "Shelf Agreement"). The Shelf Agreement allows us to issue senior promissory notes to affiliates of Prudential at fixed rate terms to be agreed upon at the time of any issuance during a three year issuance period ending in September 2017. No notes had been issued under the Shelf Agreement as of June 30, 2016 and December 31, 2015.

The Shelf Agreement contains various affirmative and negative covenants. We are also required to maintain certain financial ratios as defined in the agreement. We were in compliance with all covenants as of June 30, 2016 and December 31, 2015.

In addition, we have agreed to a most favored lender clause which is designed to ensure that any notes issued under the Shelf Agreement in the future shall continue to be of equal ranking with our indebtedness under the Credit Agreement.

6. PENSION AND OTHER POSTRETIREMENT BENEFITS

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

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

We provide certain postretirement health care 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 service pension (except a deferred pension) under the defined benefit pension plan. Medical benefits are self-insured and claims are administered through an insurance company. The cost of coverage is determined based on the annual projected plan costs. The participant's premium or cost is determined based on Company guidelines. Postretirement life insurance benefits are insured through an insurance company. We fund

postretirement benefits as incurred, and accordingly, there were no assets held in the postretirement benefits plan at June 30, 2016 and December 31, 2015.

The net periodic benefit cost for the three and six months ended June 30, 2016 and 2015 included the following components:

Components of Net Periodic Benefit Cost	Pension Benefits		Postretirement Benefits	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2016	2015	2016	2015
Service cost	\$ 6,309	\$ 6,304	\$ 569	\$ 577
Interest cost	7,006	6,251	740	713
Expected return on plan assets	(6,733)	(7,123)	—	—
Amortization of:				
Net actuarial loss	4,632	5,090	154	271
Prior service cost (gain)	112	113	(540)	(545)
Net periodic benefit cost	\$ 11,326	\$ 10,635	\$ 923	\$ 1,016

Components of Net Periodic Benefit Cost	Pension Benefits		Postretirement Benefits	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	\$ 12,684	\$ 12,804	\$ 1,144	\$ 1,252
Interest cost	14,131	12,601	1,515	1,463
Expected return on plan assets	(13,508)	(14,148)	—	—
Amortization of:				
Net actuarial loss	9,582	10,014	354	522
Prior service cost (gain)	212	226	(1,090)	(1,090)
Net periodic benefit cost	\$ 23,101	\$ 21,497	\$ 1,923	\$ 2,147

We made qualified and nonqualified pension contributions totaling \$26,000 and \$10,002 during the three-month periods ended June 30, 2016 and 2015, respectively. Contributions made during the six-month periods ending June 30, 2016 and 2015 totaled \$37,631 and \$21,534, respectively. Additional contributions totaling \$44,004 are expected to be paid during the remainder of 2016.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table represents amounts reclassified from accumulated other comprehensive income (loss) for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Amortization of Pension and Other Postretirement Benefits Items			Amortization of Pension and Other Postretirement Benefits Items		
	Actuarial Losses Recognized	Prior Service Costs Recognized	Total	Actuarial Losses Recognized	Prior Service Costs Recognized	Total
Affected Line in Condensed Consolidated Statement of Income:						
Selling, general and administrative expenses	\$ 4,786	\$ (428)	\$ 4,358	\$ 5,361	\$ (432)	\$ 4,929
Tax (benefit) expense	(1,862)	166	(1,696)	(2,086)	168	(1,918)
Total reclassifications for the period, net of tax	\$ 2,924	\$ (262)	\$ 2,662	\$ 3,275	\$ (264)	\$ 3,011

The following table represents amounts reclassified from accumulated other comprehensive income (loss) for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Amortization of Pension and Other Postretirement Benefits Items			Amortization of Pension and Other Postretirement Benefits Items		
	Actuarial Losses Recognized	Prior Service Costs Recognized	Total	Actuarial Losses Recognized	Prior Service Costs Recognized	Total
Affected Line in Condensed Consolidated Statement of Income:						
Selling, general and administrative expenses	\$ 9,936	\$ (878)	\$ 9,058	\$ 10,536	\$ (864)	\$ 9,672
Tax (benefit) expense	(3,865)	341	(3,524)	(4,099)	336	(3,763)
Total reclassifications for the period, net of tax	\$ 6,071	\$ (537)	\$ 5,534	\$ 6,437	\$ (528)	\$ 5,909

The following table represents the activity included in accumulated other comprehensive income (loss) for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Foreign Currency	Pension and Other Postretirement Benefits	Total	Foreign Currency	Pension and Other Postretirement Benefits	Total
Beginning balance April 1,	\$ (7,553)	\$ (175,147)	\$ (182,700)	\$ (5,852)	\$ (149,579)	\$ (155,431)
Other comprehensive income (loss) before reclassifications	46	—	46	1,644	—	1,644
Amounts reclassified from accumulated other comprehensive income (net of tax \$(1,696) and \$(1,918))	—	2,662	2,662	—	3,011	3,011
Net current-period other comprehensive income (loss)	46	2,662	2,708	1,644	3,011	4,655
Ending balance June 30,	\$ (7,507)	\$ (172,485)	\$ (179,992)	\$ (4,208)	\$ (146,568)	\$ (150,776)

The following table represents the activity included in accumulated other comprehensive income (loss) for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Foreign Currency	Pension and Other Postretirement Benefits	Total	Foreign Currency	Pension and Other Postretirement Benefits	Total
Beginning balance January 1,	\$ (12,416)	\$ (178,019)	\$ (190,435)	\$ 284	\$ (152,477)	\$ (152,193)
Other comprehensive income (loss) before reclassifications	4,909	—	4,909	(4,492)	—	(4,492)
Amounts reclassified from accumulated other comprehensive income (net of tax \$(3,524) and \$(3,763))	—	5,534	5,534	—	5,909	5,909
Net current-period other comprehensive income (loss)	4,909	5,534	10,443	(4,492)	5,909	1,417
Ending balance June 30,	\$ (7,507)	\$ (172,485)	\$ (179,992)	\$ (4,208)	\$ (146,568)	\$ (150,776)

8. ASSETS HELD FOR SALE

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

Upon designation as an asset held for sale, we record the carrying value of each property at the lower of its carrying value or its estimated fair value, less estimated costs to sell, and depreciation of the property ceases. The net book value of assets held for sale was \$58 at December 31, 2015. During the three and six months ended June 30, 2016, we designated locations as an asset held for sale with net book values of \$89 and \$553, respectively. During the six months ended June 30, 2016, we sold an asset classified as held for sale with a net book value of \$58 and recorded a net gain on the asset held for sale of \$1,627 in other income, net. The remaining net book value of assets still held for sale at June 30, 2016 is \$553 and is recorded in net property in the condensed consolidated balance sheets.

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

For assets held for sale, impairment occurs whenever the net book value of the property listed for sale exceeds the expected selling price less estimated selling expenses. There were no impairment charges recorded during the three and six month periods ended June 30, 2016 and 2015.

9. COMMITMENTS AND CONTINGENCIES

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

We account for loss contingencies in accordance with GAAP. 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 during which such matters are resolved or a better estimate becomes available.

10. ACQUISITIONS

In April 2015, we acquired 100% of the outstanding capital stock of Advantage Industrial Automation, Inc. ("Advantage"), which provides control and automation solutions to industrial users, OEMs and system integrators, for \$18,093 in cash, net of cash acquired. The purchase price allocation resulted in approximately \$7,057 and \$8,283 of tax deductible goodwill and other intangible assets, respectively.

Since the date of acquisition, the Advantage results are reflected in our Condensed Consolidated Financial Statements. Pro forma results of this acquisition were not material; therefore, they are not presented.

On July 1, 2016, we purchased Cape Electrical Supply ("Cape Electric"), a regional distributor serving electrical contractors and large engineering construction firms, as well as industrial, institutional and utility customers with annual revenues of approximately \$125,000. Cape Electric was founded in 1953 and is headquartered in Cape Girardeau, Missouri with 17 locations in the central United States.

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, 2015, included in our Annual Report on Form 10-K for such period as filed with the United States Securities and Exchange Commission (the "Commission"). The results shown herein are not necessarily indicative of the results to be expected in any future periods.

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believes", "projects", "expects", "anticipates", "estimates", "intends", "strategy", "plan", "may", "will", "would", "will be", "will continue", "will likely result", and other similar expressions. We intend such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the PSLRA. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse impact on our operations and future prospects on a consolidated basis include, but are not limited to: general economic conditions, particularly in the residential, commercial, and industrial building construction industries; volatility in the prices of industrial commodities; cyber-attacks; a sustained interruption in the operation of our information systems; increased funding requirements and expenses related to our pension plan; the inability, or limitations on our ability to borrow under our existing credit facilities or any replacements thereof; disruptions in our sources of supply; compliance with increasing governmental regulations; adverse legal proceedings or other claims; 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, 2015.

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

Background

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

Our common stock is 100% owned by active and retired employees, and there is no public trading market for our common stock. No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer, or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. Additionally, a shareholder is entitled to any cash dividends, if any, accrued for the quarter in which the purchase offer is made, adjusted pro rata for the number of days such shares were held prior to the dividend record date. 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 on a pension (except a deferred pension), 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 June 30, 2016 were \$1,630,521, a record quarter for net sales. This was \$60,513, or 3.9% higher than the three months ended June 30, 2015. Year-to-date June 30, 2016 net sales totaled \$3,096,001, an increase of \$132,215, or 4.5%, over year-to-date June 30, 2015 net sales of \$2,963,786. Quarter-to-date net sales in our construction vertical market increased 7.8%, while our industrial and utility vertical market net sales decreased 0.4% and CIG vertical market net sales decreased 1.9%. Year-to-date net sales in our construction vertical market increased 9.0%, while our industrial and utility vertical market net sales decreased 1.1% and CIG vertical market net sales decreased 1.4%.

The gross margin rate for the three months ended June 30, 2016 and 2015, was 18.7%. Gross margin increased \$12,254, or 4.2%, to \$305,599 for the three months ended June 30, 2016, when compared to gross margin of \$293,345 for the same period last year. Year-to-date June 30, 2016 and 2015 gross margin rate was 18.9% and 18.6%, respectively. Year-to-date June 30, 2016 gross margin increased \$32,875, or 6.0%, to \$585,246, compared to gross margin of \$552,371 for the same six-month period last year. Our improved gross margin rate continues to be the result of our organic gross margin improvement and product diversification initiatives.

Net income attributable to the Company for the three months ended June 30, 2016 increased \$547, or 2.2%, to \$25,635 from \$25,088 for the three months ended June 30, 2015, while net income attributable to the Company for the six months ended June 30, 2016 increased \$3,132, or 8.3%, to \$40,680 from \$37,548 for the six months ended June 30, 2015.

Our performance for the three and six months ended June 30, 2016 was the result, in part, of our sustained focus on achieving profitable growth and strengthening our position in the supply chain. Over the last several years, we have invested in new and expanded facilities, training and developing our people, and enhancing our technology and service capabilities.

While we will continue to remain focused on organic growth, we will pursue new opportunities to drive our long-term success and expand our reach by adding new locations and exploring potential acquisitions.

Consolidated Results of Operations

The following tables set forth certain information relating to our operations stated in thousands of dollars and as a percentage of net sales for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Dollars	Percent	Dollars	Percent
Net Sales	\$ 1,630,521	100.0%	\$ 1,570,008	100.0%
Cost of merchandise sold	(1,324,922)	(81.3)	(1,276,663)	(81.3)
Gross Margin	305,599	18.7	293,345	18.7
Selling, general and administrative expenses	(250,565)	(15.3)	(240,909)	(15.3)
Depreciation and amortization	(11,564)	(0.7)	(10,813)	(0.7)
Other income, net	517	—	1,217	—
Income from Operations	43,987	2.7	42,840	2.7
Interest expense, net	(763)	—	(697)	—
Income before Provision for Income Taxes	43,224	2.7	42,143	2.7
Provision for income taxes	(17,530)	(1.1)	(16,998)	(1.1)
Net Income	25,694	1.6	25,145	1.6
Less: Net income attributable to noncontrolling interests	(59)	—	(57)	—
Net Income attributable to Graybar Electric Company, Inc.	\$ 25,635	1.6%	\$ 25,088	1.6%

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Dollars	Percent	Dollars	Percent
Net Sales	\$ 3,096,001	100.0%	\$ 2,963,786	100.0%
Cost of merchandise sold	(2,510,755)	(81.1)	(2,411,415)	(81.4)
Gross Margin	585,246	18.9	552,371	18.6
Selling, general and administrative expenses	(495,297)	(16.0)	(472,976)	(16.0)
Depreciation and amortization	(22,875)	(0.7)	(21,122)	(0.7)
Other income, net	2,809	—	5,559	0.2
Income from Operations	69,883	2.2	63,832	2.1
Interest expense, net	(1,420)	—	(1,210)	—
Income before Provision for Income Taxes	68,463	2.2	62,622	2.1
Provision for income taxes	(27,672)	(0.9)	(24,983)	(0.8)
Net Income	40,791	1.3	37,639	1.3
Less: Net income attributable to noncontrolling interests	(111)	—	(91)	—
Net Income attributable to Graybar Electric Company, Inc.	\$ 40,680	1.3%	\$ 37,548	1.3%

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Net sales totaled \$1,630,521 for the quarter ended June 30, 2016, compared to \$1,570,008 for the quarter ended June 30, 2015, an increase of \$60,513, or 3.9%. Net sales in our construction vertical market increased for the three months ended June 30, 2016 compared to the same three-month period of 2015 by 7.8%, while net sales in our industrial and utility and CIG vertical markets declined by 0.4% and 1.9%, respectively.

Gross margin increased \$12,254, or 4.2%, to \$305,599 for the three months ended June 30, 2016, from \$293,345 for the same period of 2015 primarily due to our focus on gross margin rate improvement initiatives as well as increased net sales in the second quarter of 2016, compared to the same period of 2015. Our gross margin as a percent of net sales remained at 18.7% for the three months ended June 30, 2016 and 2015.

Selling, general and administrative expenses ("SG&A") increased \$9,656, or 4.0%, to \$250,565 in the second quarter of 2016 from \$240,909 in the second quarter of 2015, due primarily to an increase in employee benefit costs and normal compensation increases for the three months ended June 30, 2016. Selling, general and administrative expenses as a percentage of net sales totaled 15.3% for the three months ended June 30, 2016 and 2015.

Depreciation and amortization expenses for the three months ended June 30, 2016 increased \$751, or 6.9%, to \$11,564 from \$10,813 in the second quarter of 2015, due to an increase in property, at cost. Total property, at cost, at June 30, 2016 was \$923,437, an increase of \$21,983, or 2.4%, when compared to total property, at cost, at June 30, 2015 of \$901,454. Depreciation and amortization expenses as a percentage of net sales totaled 0.7% for the three months ended June 30, 2016 and 2015.

Other income, net totaled \$517 for the three-month period ended June 30, 2016, compared to \$1,217 for the three months ended June 30, 2015. Other income, net consists primarily of gains on the disposal of property, trade receivable interest charges to customers, and other miscellaneous income items related to our business activities. The decrease in other income, net for the three months ended June 30, 2016 compared to the same three-month period in 2015 was primarily due to reduced net gains on the disposal of real property of \$608.

Interest expense, net increased \$66, or 9.5%, to \$763 for the three months ended June 30, 2016 compared to \$697 for the same period of 2015. The increase was primarily due to higher levels of average outstanding short-term borrowings.

Income before provision for income taxes totaled \$43,224 for the three months ended June 30, 2016, an increase of \$1,081, or 2.6%, from \$42,143 for the three months ended June 30, 2015. The increase was primarily due to our growth in gross margin partially offset by increases in SG&A, depreciation and amortization expense, interest expense and a decrease in other income, net.

Our total provision for income taxes increased \$532, or 3.1%, to \$17,530 for the three months ended June 30, 2016, compared to \$16,998 for the same period of 2015. Our effective tax rate was 40.6% for the three months ended June 30, 2016,

compared to 40.3% for the same period of 2015. The increase in the effective tax rate is largely attributable to discrete events recorded in 2016 as compared to the prior year. The effective tax rate for the three months ended June 30, 2016 was higher than the 35.0% U.S. federal statutory rate primarily due to state and local income taxes.

Net income attributable to Graybar Electric Company, Inc. for the three months ended June 30, 2016 increased \$547, or 2.2%, to \$25,635 from \$25,088 for the three months ended June 30, 2015.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Net sales totaled \$3,096,001 for the six-month period ended June 30, 2016, compared to \$2,963,786 for the six-month period ended June 30, 2015, an increase of \$132,215, or 4.5%. Net sales in our construction vertical market increased for the six months ended June 30, 2016 compared to the same six-month period of 2015 by 9.0%, while net sales in our industrial and utility and CIG vertical markets declined by 1.1% and 1.4%, respectively.

Gross margin increased \$32,875, or 6.0%, to \$585,246 from \$552,371 primarily due to our focus on gross margin rate improvement initiatives, as well as increased net sales in the first six months of 2016, compared to the same period of 2015. Our gross margin as a percent of net sales totaled 18.9% for the six months ended June 30, 2016, up from 18.6% for the six months ended June 30, 2015.

Selling, general and administrative expenses increased \$22,321, or 4.7%, to \$495,297, for the six-month period ended June 30, 2016, compared to \$472,976 for the six-month period ended June 30, 2015, due primarily to an increase in employee benefit costs and normal compensation increases for the six months ended June 30, 2016. Selling, general and administrative expenses as a percentage of net sales remained at 16.0% for the six months ended June 30, 2016 and 2015.

Depreciation and amortization expenses for the six months ended June 30, 2016 increased \$1,753, or 8.3%, to \$22,875 from \$21,122 for the same six-month period in 2015, due to an increase in property, at cost. Total property, at cost, at June 30, 2016 was \$923,437, an increase of \$21,983, or 2.4%, when compared to total property, at cost, at June 30, 2015 of \$901,454. Depreciation and amortization expenses as a percentage of net sales remained constant at 0.7% for the six months ended June 30, 2016 and 2015.

Other income, net totaled \$2,809 for the six-month period ended June 30, 2016, compared to \$5,559 for the six months ended June 30, 2015. Other income, net consists primarily of gains on the disposal of property, trade receivable interest charges to customers, and other miscellaneous income items related to our business activities. The decrease in other income, net for the six months ended June 30, 2016 compared to the same six-month period in 2015 was primarily due to reduced net gains on the disposal of real property of \$2,629.

Interest expense, net increased \$210, or 17.4%, to \$1,420 for the six months ended June 30, 2016 compared to \$1,210 for the same period of 2015. The increase was primarily due to higher levels of average outstanding short-term borrowings.

Income before provision for income taxes totaled \$68,463 for the six months ended June 30, 2016, an increase of \$5,841, or 9.3%, from \$62,622 for the six months ended June 30, 2015. The increase was primarily due to our growth in gross margin and partially offset by increases in SG&A, depreciation and amortization expenses, interest expense and a decrease in other income, net.

Our total provision for income taxes increased \$2,689, or 10.8%, to \$27,672 for the six months ended June 30, 2016, compared to \$24,983 for the same period in 2015. Our year-to-date effective tax rate was 40.4% for the six months ended June 30, 2016, compared to 39.9% for the same period in 2015. The increase in the effective tax rate was attributable to discrete events recorded in 2016 as compared to the prior year. The effective tax rate for the six months ended June 30, 2016 was higher than the 35.0% U.S. federal statutory rate primarily due to state and local income taxes.

Net income attributable to Graybar Electric Company, Inc. for the six-month period ended June 30, 2016 increased \$3,132, or 8.3%, to \$40,680 from \$37,548 for the six months ended June 30, 2015.

Financial Condition and Liquidity

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

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

Our cash and cash equivalents at June 30, 2016 were \$40,662, compared to \$37,931 at December 31, 2015, an increase of \$2,731, or 7.2%. Our short-term borrowings increased significantly, \$58,512, or 55.7% during the six-month period to \$163,490 at June 30, 2016 from \$104,978 at December 31, 2015, primarily due to strategic investments in merchandise inventory to support our growth of sales. In addition, cash collections, as measured by days sales outstanding, improved modestly for the quarter ended June 30, 2016. Finally, current assets exceeded current liabilities by \$495,773 at June 30, 2016, an increase of \$50,330, or 11.3%, from \$445,443 at December 31, 2015.

Operating Activities

Cash used by operations for the six months ended June 30, 2016 was \$33,449, compared to \$41,687 for the six months ended June 30, 2015, a decrease of \$8,238, or 19.8%. Cash flows used by operations for June 30, 2016 was attributable to increased inventory levels during the six months ended June 30, 2016 of \$101,735 to support our continued growth of sales during 2016, as well as an increase in trade receivables of \$49,792 as a result of increased sales and a modest improvement in days sales outstanding for the three months ended June 30, 2016, and a decrease in accrued payroll benefits of \$40,762 as a result of additional voluntary pension contributions made during the second quarter. These uses were partially offset by net income of \$40,791 and an increase in trade accounts payable of \$79,513.

Merchandise inventory turnover decreased significantly for the six months ended June 30, 2016, compared to the six months ended June 30, 2015, as a result of increased merchandise inventory levels, partially offset by higher sales volume at June 30, 2016 compared to June 30, 2015. The average number of days of sales in trade receivables for the six-month period ended June 30, 2016 decreased modestly compared to the same six-month period ended June 30, 2015.

Investing Activities

Net cash used by investing activities totaled \$13,508 for the six months ended June 30, 2016, compared to \$59,954 for the same six-month period in 2015, a decrease of \$46,446, or 77.5%. The decrease was primarily due to lower capital expenditures in the six months ended June 30, 2016 compared to the six months ended June 30, 2015. In the first quarter of 2015, we purchased a new regional distribution center in southern California for \$23,392. In the second quarter of 2016, we acquired two properties for a total of \$3,279. In addition, in the second quarter of 2015, we acquired Advantage Industrial Automation, Inc. for \$18,093, net of cash acquired. Proceeds on the disposal of property decreased during the six months ended June 30, 2016 compared to 2015. In the first quarter of 2016 we disposed of a local distribution facility that provided proceeds of \$1,686, compared to first quarter of 2015 when we disposed of a regional distribution center in northern California that provided proceeds of \$8,214. Both facilities had been classified as an asset held for sale.

Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2016 totaled \$49,688, compared to \$106,421 for the six months ended June 30, 2015, a decrease of \$56,733, or 53.3%. The decrease was primarily due to the decrease in our short term borrowings for the six months ended June 30, 2016 when compared to the six months ended June 30, 2015, to fund our operating and investing activities.

Liquidity

We had a \$550,000 revolving credit facility with \$386,510 in available capacity at June 30, 2016, compared to \$445,022 at December 31, 2015. At June 30, 2016 and December 31, 2015, we also had an uncommitted \$100,000 private placement shelf agreement that allows us to issue senior promissory notes to affiliates of Prudential at fixed rate terms to be agreed upon at the

time of any issuance during a three year issuance period ending in September 2017. We have not issued any notes under the shelf agreement as of June 30, 2016 and December 31, 2015. For further discussion related to our revolving credit facility and our private placement shelf agreement, refer to Note 5, "Debt", of the notes to the condensed consolidated financial statements located in Item 1.

We had total letters of credit of \$5,244 and \$4,994 outstanding, of which none were issued under the \$550,000 revolving credit facility at June 30, 2016 and December 31, 2015. The letters of credit are issued primarily to support certain workers' compensation insurance policies.

New Accounting Standards Updates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the policies, procedures, controls, or risk profile from those provided in Item 7A., "Quantitative and Qualitative Disclosures About Market Risk", of our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2016, was performed under the supervision and with the participation of management. Based on that evaluation, our management, including the Principal Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in internal control over financial reporting

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

PART II - OTHER INFORMATION

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

Our common stock is 100% owned by active and retired employees, and there is no public trading market for our common stock. Since 1928, substantially all of the issued and outstanding shares of common stock have been held of record by voting trustees under successive voting trust agreements. Under applicable New York law, a voting trust may not have a term greater than ten years. The 2007 Voting Trust Agreement expires by its terms on March 15, 2017. At June 30, 2016, approximately 83% of the common stock was held in this 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.

No holder of our common stock or voting trust interests representing our common stock ("common stock", "common shares", or "shares") may sell, transfer, or otherwise dispose of any shares without first offering us the option to purchase those shares at the price at which they were issued. Additionally, a shareholder is entitled to any cash dividends, if any, accrued for the quarter in which the purchase offer is made, adjusted pro rata for the number of days such shares were held prior to the dividend record date. 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 on a pension (except a deferred pension), and on the first anniversary of any holder's death. In the past, we have always exercised these purchase options, and we expect to continue to do so in the foreseeable future. However, we can make no assurance that we will continue to exercise our purchase option in the future. All outstanding shares have been issued at \$20.00 per share.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
April 1 to April 30, 2016	50,368	\$20.00	N/A
May 1 to May 31, 2016	18,323	\$20.00	N/A
June 1 to June 30, 2016	74,075	\$20.00	N/A
Total	142,766	\$20.00	N/A

Item 6. Exhibits.

(a) Exhibits furnished in accordance with provisions of Item 601 of Regulation S-K.

(3)	(i)	Articles of Incorporation
	(a)	Restated Certificate of Incorporation, as amended, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K dated June 13, 2013 (Commission File No. 000-00255) and incorporated herein by reference.
	(ii)	Bylaws
	(a)	By-laws as amended through March 12, 2015, filed as Exhibit 3(ii) to the Company's Current Report on Form 8-K dated March 12, 2015 (Commission File No. 000-00255) and incorporated herein by reference.
(31)	Rule 13a-14(a)/15d-14(a) Certifications	
	(31.1)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Principal Executive Officer.
	(31.2)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Principal Financial Officer.
(32)	Section 1350 Certifications	
	(32.1)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Principal Executive Officer.
	(32.2)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Principal Financial Officer.
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

SIGNATURES

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

GRAYBAR ELECTRIC COMPANY, INC.

August 2, 2016

Date

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President and Chief Executive Officer
(Principal Executive Officer)

August 2, 2016

Date

/s/ RANDALL R. HARWOOD

Randall R. Harwood

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

EXHIBIT INDEX

Exhibits

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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.

August 2, 2016

Date

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Randall R. Harwood, certify that:

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

August 2, 2016

Date

/s/ RANDALL R. HARWOOD

Randall R. Harwood

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

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

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

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2016 (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.

August 2, 2016

Date

/s/ KATHLEEN M. MAZZARELLA

Kathleen M. Mazzarella

President and Chief Executive Officer
(Principal Executive Officer)

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

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

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2016 (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.

August 2, 2016

Date

/s/ RANDALL R. HARWOOD

Randall R. Harwood

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