



FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)

	2018	2017	2016*	2015 **
Net Sales	\$ 356,858	\$ 317,697	\$ 261,644	\$ 308,133
Sales Per Employee	840	782	733	856
Operating Income (loss)	13,898	4,604	(3,290)	9,435
Operating Margin	3.89%	1.45%	(1.26)%	3.06%
Net Income (loss)	8,636	(222)	(3,308)	5,171
Diluted Earnings (loss) Per Share	0.52	(0.01)	(0.21)	0.30
Total Assets	203,057	194,039	175,870	159,113
Long-term Obligations	71,894	74,995	60,904	39,463
Stockholders' Equity	100,678	90,744	90,131	100,001

* Non-GAAP excludes the impact of the impairment charge of \$2,384 and acquisition expenses related to Vertex of \$861. See notes 2, 4 and 12 to the consolidated financial statements. 2016 results as reported were an operating loss of \$(6,535), net loss of \$(6,006) and diluted loss per share of \$(0.37).

** Non-GAAP excludes the impact of the impairment charge of \$3,417. See notes 3 and 11 to the consolidated financial statements. 2015 results as reported were operating income of \$6,018, net income of \$2,044 and diluted earnings per share of \$0.12.



James L. Pokluda III
President, CEO and Director

Dear Shareholders:

Our plan is working. In 2018 Houston Wire & Cable Company [HWCC] made great progress in improving performance in every major area of the Company. Financial performance improved, operational execution improved, and customer penetration improved. End market strength and customer demand continued to grow across all geographies, sales from new products and services reached new highs, and operational execution was outstanding.

The following are financial highlights from 2018:

- Revenue grew to \$357 million, which was a 12.3% increase over the prior year, and two to three times above the industry average.
- Gross margin increased to 23.9%, which was an improvement of 100 basis points over 2017, and the highest level achieved since 2007.
- Operating expenses as a percentage of sales improved to 20.0%, which was down 140 basis points from 2017, and 270 basis points better than 2016.
- Net income grew to \$8.6 million which was an \$8.9 million increase over 2017, a \$14.6 million increase over 2016, and a \$6.6 million increase over 2015.
- Financial leverage defined as Debt/EBITDA improved to 4.4 from 10.0 in 2017 and was the lowest level since 2015.

You may recall that in last year's shareholder letter I commented that we were energized, we had momentum, and our outlook was optimistic. Flash forward to today, and our view remains unchanged. Although we are mindful that certain economic indicators may foreshadow slowing growth, we believe that like 2018, 2019 will be a continued year of improved financial performance. Given our unique Master Distribution value proposition, our products and services tend to fulfill late-cycle demand, and as such our performance generally lags broad economic trends by two to three quarters. At present, our end markets are performing well, and customer demand has continued to improve over the prior year.

My past letters tended to focus mostly on our Company's end markets. This year I would like to transition a bit, and provide some high-level insights on key elements of our operating plan. I think this is important, because I believe our



STEEL WIRE ROPE & HARDWARE



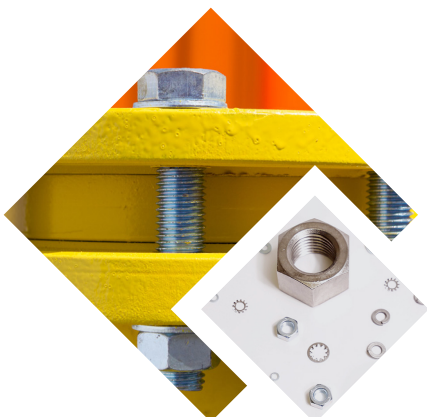
AUTOMATION CABLE



VARIABLE FREQUENCY DRIVE CABLE



INDUSTRIAL CABLE



VERTEX FASTENERS

performance in 2018 represented far more than a rising tide raising all ships and that our results were largely the output from our well-executed operating plan. We see 2019 as an opportunity to continue our success from 2018, and below I will share four strategic objectives of our operating plan for the current year.

ITEM 1: GROW REVENUE AT A RATE EQUAL TO OR ABOVE TWO TIMES GROWTH IN GROSS DOMESTIC PRODUCT [GDP] GDP is a broad economic indicator, but many in our industry find it a good proxy for growth, and we agree. Generally speaking, our industry grows at the same rate as GDP but our goal is to exceed that, and, in recovering economic conditions, we have an excellent track record of doing so.

In 2018 we grew our business slightly over 12%, substantially more than the industry average. Although we were pleased that end market strength and customer demand had improved over prior periods, we believe our robust business development plans which target Maintenance Repair and Operations [MRO] as well as Project demand in the targeted end markets of Industrials, Utility Power Generation, and Infrastructure, are what really made the difference. Well-defined goals and controls at all reporting units, strong management oversight, and pay for performance compensation plans all contributed to our success.

The results have been good, and the fourth quarter of 2018 marked the eighth consecutive quarter with year-over year revenue growth.

ITEM 2: IMPROVE GROSS MARGIN

I am really proud of the fantastic progress our Company has made in improving gross margin. This is one of the most difficult metrics for distributors to improve as pricing is very elastic, and the distribution industry is extremely competitive. Distribution markets are highly efficient, so, said simply: if you don't have a good model, you won't be able to increase price. Success in this area has always been a great indicator of where one resides in the value chain.

Last year we posted a 100 basis point improvement in gross margin over the prior year, and if you were to look back over the past few years, you would note that 2018 was up 370 basis points from the low set in 2016. Given the relatively high fixed cost of our business model, the benefits of improving gross margin are especially evident when you look further down the income statement and see that we "pulled" 74% of our incremental year-over-year gross margin gains "through" to operating income last year. This outstanding "pull-through" was a key driver of our financial results for the year, and a great indicator of what our model can produce in an improving economic environment.

Given our increasing mix of revenues realized from synthetic and steel wire rope fabrication, rentals, engineering services, fasteners, and other high-value SKUs, continuous improvements in gross margin remain a key element of our strategic operating plan.

ITEM 3: REDUCE OPERATING EXPENSES AS A PERCENTAGE OF SALES

Operating expense as a percentage of sales was 20% in 2018 versus 21.4% in 2017. This was an outstanding improvement, as a 140 basis point reduction underscores the high degree of operating leverage our Company can produce from increased revenue.

Over the years you have heard me say that “we are laser focused on cost control and expense reduction.” The bottom line is that there is no room for waste in a distribution model, especially a Master Distribution model like ours. While we are pleased that in 2018 we made great strides in cost control, we feel we still have more room for improvement, and that was the driving force behind our Company-wide adoption of LEAN in 2018.

LEAN, and its principles and processes have now become part of our continuous improvement and cost-conscious culture. We made super gains last year, but I really feel that we are just getting started. LEAN is a journey, not a destination and this initiative is an important part of our go-forward strategy.

ITEM 4: ALLOCATE CAPITAL WISELY

Capital allocation, executed wisely over an extended period of time, is a critical element of our operating plan, and reducing debt is our number one priority in this area for 2019.

Our near-term Debt-to-EBITDA goal is a ratio of 2.5 to 3.0. In 2018 we made great progress towards this goal, and reduced the ratio to 4.4 from 10.0 in 2017. We expect ongoing improvement in this ratio as we move further into 2019 through a combination of inventory leverage and increased net income from higher revenue, and increased operating cash flow that will allow us to retire debt.

As we make progress in debt reduction, we also increase our optionality for other uses of capital. Key to our capital allocation strategy will be rewarding our long-term shareholders and keeping the best interests of all our shareholders in mind.

CONCLUSION

I will close this letter by summarizing a few key points.

2018 was a solid recovery year and many thanks to all of our valued team members and great customers who helped produce these results. We have good momentum exiting 2018 and our outlook for 2019 is optimistic.

We don't have any silver bullets, or a flash-in-the-pan operating plan. We are not that type of company. What we do have is a strategic plan that applies our unique Master Distribution value proposition to target customers in target end markets – and it is working. It is a well-constructed and tightly-controlled plan designed to drive revenue growth through multiple strategic initiatives, increase gross margin via a targeted approach, reduce expenses and improve cost control through the principles of LEAN, and allocate capital wisely, always with the best long-term interests of our shareholders in mind.

On behalf of our Board of Directors, and all my Houston Wire & Cable Company coworkers, I thank you for your continued support and the confidence you have placed in our Company.

Sincerely,

James L. Pokluda III



DATA CABLE



MEDIUM VOLTAGE CABLE



HAZARDOUS LOCATION ARMORED CABLE





HOUSTON WIRE & CABLE COMPANY
FORM 10-K 2018



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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 000-52046



Delaware

(State or other jurisdiction of incorporation or organization)

36-4151663

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

10201 North Loop East

Houston, Texas

(Address of principal executive offices)

77029

(Zip Code)

(713) 609-2100

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value \$0.001 per share	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer 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

The aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant as of June 30, 2018 was \$136,842,163.

At March 1, 2019, there were 16,613,012 shares of the registrant's common stock, \$.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates by reference specific portions of the registrant's definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

HOUSTON WIRE & CABLE COMPANY
Form 10-K
For the Fiscal Year Ended December 31, 2018

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PART I

ITEM 1. BUSINESS

Overview

We are a provider of industrial products including electrical and mechanical wire and cable, industrial fasteners, hardware and related services to the U.S. market. We sell electrical products through wholesale electrical distributors, steel wire rope and synthetic products through rigging wholesalers, fastener products through industrial distributors, and fabricated steel wire rope and synthetic lifting and hardware products to distributors and end users. We provide our customers with a single-source solution by offering a large selection of in-stock items, exceptional customer service and high levels of product expertise.

Our wide product selection and specialized services support our position in the supply chain between manufacturers and the customer. The breadth and depth of wire and cable, fasteners, lifting products and related hardware that we offer requires significant warehousing resources and a large number of SKUs (stock-keeping units). While manufacturers may have the space and capabilities to maintain a large supply of inventory, we do not believe that any single manufacturer has the breadth and depth of product that we offer. More importantly, manufacturers historically have not offered the services that our customers need, such as complimentary custom cutting, cable coiling, custom manufactured slings and harnesses, paralleling, bundling, striping, cable management for large capital projects, and same day shipment, and do not have multiple distribution centers across the nation.

Our Cable Management Program addresses our customers' requirement for sophisticated and efficient just-in-time product management for large capital projects. This program entails purchasing and storing dedicated inventory so our customers have immediate product availability for the duration of their projects. Advantages of this program include extra pre-allocated safety stock, firm pricing, zero cable surplus and just-in-time delivery. Used on large construction and capital expansion projects, our Cable Management Program combines the expertise of our cable specialists with dedicated project inventory and superior logistics to allow complex projects to be completed on time, within budget and with minimal residual waste.

History

We were founded in 1975 and have a long history of exceptional customer service, broad product selection and high levels of product expertise. In 1987, we completed our first initial public offering and were subsequently purchased in 1989 by ALLTEL Corporation and in 1997 by investment funds affiliated with Code, Hennessy & Simmons LLC. In 2006, we completed our second initial public offering. In 2010, we purchased Southwest Wire Rope LP ("Southwest"), its general partner Southwest Wire Rope GP LLC and its wholly owned subsidiary, Southern Wire ("Southern"), and subsequently merged the acquired businesses into our operating subsidiary. On October 3, 2016 we completed the acquisition of Vertex Corporate Holdings, Inc., and its subsidiaries ("Vertex") from DXP Enterprises. Vertex is a master distributor of industrial fasteners and this acquisition expanded our product offerings to the industrial marketplace that purchases our wire and cable products.

Products

We offer products in most categories of wire and cable, including: continuous and interlocked armor cable; control and power cable; electronic wire and cable; flexible and portable cord; instrumentation and thermocouple cable; lead and high temperature cable; medium voltage cable; premise and category wire and cable, primary and secondary aluminum distribution cable, steel wire rope and wire rope slings, as well as synthetic fiber rope slings, chain, shackles, related hardware and corrosion resistant products including inch and metric bolts, screws, nuts, washers, rivets and hose clamps. We also offer private branded products, including our proprietary brand LifeGuard, a low-smoke, zero-halogen cable. Our products are used in repair and replacement work, also referred to as Maintenance, Repair and Operations ("MRO"), and related projects, larger-scale projects in the utility, industrial and infrastructure markets and a diverse range of industrial applications including communications, energy, engineering and construction, general manufacturing, marine construction and marine transportation, mining, infrastructure, oilfield services, petrochemical, transportation, utility, wastewater treatment and food and beverage.

Targeted Markets

Our business is driven, in part, by the strength, growth prospects and activity in the end-markets in which our products are used, which are primarily in the continental United States, where we target the utility, industrial and infrastructure markets.

Industrial Market. The industrial market is one of the largest segments of the U.S. economy and is comprised of a diverse base of manufacturing and production companies. The largest driver of our success in this market results from the level of U.S. investment in upstream, midstream and downstream oil and gas exploration, transportation and production. We provide a wide variety of products specifically designed for use in manufacturing, metal/mineral, and oil and gas markets.

Utility Market. The utility market includes large investor-owned utilities, rural cooperatives and municipal power authorities. We are not a significant distributor of power lines used for the transmission of electricity but have products in our portfolio that are used in this sector. We sell our core products for the construction of power plants and the related pollution control equipment used to comply with environmental standards as well as plant modernizations implemented to extend the life of power generation facilities. Our customers utilize our cable management services to supply the wire and cable required in the construction of new power plants and upgrading of existing power plants.

Infrastructure Market. Investments in the development, construction and maintenance of infrastructure markets (including commercial buildings, education and health care; air, ground and rail transportation; telecommunications, and wastewater) are opportunities for our product and service offerings.

Distribution Logistics

We believe that our national distribution presence and value-added services make us an essential partner in the supply chain for our suppliers. We have successfully expanded our business from the original location in Houston, Texas to twenty-one locations nationwide, which includes three third-party logistics providers. Our standard practice is to process customers' orders the same day they are received. Our strategically located distribution centers generally allow for ground delivery nationwide within 24 hours of shipment. Orders are delivered through a variety of distribution methods, including less-than-truck-load, truck-load, air or parcel service providers, direct from supplier, cross-dock shipments and customer pick-up. Freight costs are typically borne by our customers. Due to our shipment volume, we have preferred pricing relationships with our contract carriers.

Customers

During 2018, we served approximately 10,500 customers, shipping approximately 46,000 SKUs to approximately 14,000 customer locations nationwide. No customer represented 10% or more of our 2018 sales.

Suppliers

We obtain products from leading suppliers and believe we have strong relationships with our top suppliers. We source a portion of our products from offshore. While alternative sources are available for the majority of our products, we have strategically concentrated our purchases with our top suppliers in order to maximize product quality, delivery dependability, purchasing efficiencies, and vendor rebates. As a result, in 2018, approximately 46% of our purchases came from five suppliers. We do not believe we are dependent on any one supplier for any of the industrial products that we sell.

Our top five suppliers in 2018 were AmerCable Incorporated, Belden Inc., General Cable Corporation, Nexans Energy USA, Inc. and Southwire Company.

Sales

We market our products and related services through an inside sales force situated in our regional offices, a field sales force focused on key geographic markets, and regional sales agencies. By operating under a decentralized structure, region managers are able to adapt quickly to market-specific occurrences, allowing us to compete effectively with local competitors. We believe the knowledge, experience and tenure of our sales force are critical to serving our fragmented and diverse customer and end-user base.

Competition

The industrial products market remains very competitive and fragmented, with several hundred electrical wire and cable, steel wire rope, and fastener competitors serving this market. The product offerings and levels of service from the other providers of product with which we compete vary widely at the national, regional or local levels. In addition to the direct competition with other product providers, we also face, on a varying basis, competitors that sell products directly or through multiple distribution channels to end-users or other resellers.

In the markets that we sell our industrial products, competition is primarily based on product line breadth, quality, product availability, service capabilities and price.

Employees

At December 31, 2018, we had 427 employees. Our sales and marketing staff accounted for 189 employees, including 32 field sales personnel, 11 representative sales agencies, and 121 inside sales and technical support personnel.

Fifteen warehouse employees at our Attleboro, Massachusetts location are represented by a labor union. We believe that our employee relations are good.

Website Access

We maintain an internet website at www.houwire.com. We make available, under the “Investor Relations” tab on our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and if applicable, amendments to those reports, as well as proxy and information statements, as soon as reasonably practicable after such documents are electronically filed with or furnished to the Securities and Exchange Commission (the “SEC”). Information contained on our website is not part of, and should not be construed as being incorporated by reference into, this Annual Report on Form 10-K.

Government Regulation

We are subject to regulation by various federal, state and local agencies. We believe we are in compliance in all material respects with existing applicable statutes and regulations affecting environmental issues and our employment, workplace health and workplace safety practices.

ITEM 1A. RISK FACTORS

In addition to other information in this Annual Report on Form 10-K, the following risk factors should be carefully considered in evaluating our business, because such factors may have a significant impact on our business, operating results, cash flows and financial condition. As a result of the risks set forth below and elsewhere in this Annual Report, actual results could differ materially from those projected in any forward-looking statements.

Downturns in capital spending and cyclicity in the markets we serve have had and could continue to have a material adverse effect on our financial condition and results of operations.

The majority of our products are used in the construction, maintenance, repair and operation of facilities, plants and projects in the communications, energy, engineering and construction, general manufacturing, infrastructure, oil and gas, marine construction, marine transportation, mining, oilfield services, transportation, utility, wastewater treatment and food and beverage industries. The demand for our products and services depends to a large degree on the capital spending levels of end-users in these markets. Many of these end-users defer capital expenditures or cancel projects during economic downturns or periods of uncertainty. In addition, certain of the markets we serve are cyclical, which affects capital spending by end-users in these industries.

We have risks associated with our customers' access to credit.

Poor credit market conditions may adversely impact the availability of construction and other project financing, upon which many of our customers depend, resulting in project cancellations or delays. Our utility and industrial customers may also face limitations when trying to access the credit markets to fund ongoing operations or capital projects. Credit constraints experienced by our customers may result in lost revenues, reduced gross margins for us and, in some cases, higher than expected bad debt losses.

We have risks associated with inventory.

Our business requires us to maintain substantial levels of inventory. We must identify the right mix and quantity of products to keep in our inventory to fulfill customer orders. Failure to do so could adversely affect our sales and earnings. However, if our inventory levels are too high, we are at risk that unexpected changes in circumstances, such as a shift in market demand, drop in prices or loss of a customer, could have a material adverse impact on the net realizable value of our inventory.

Our operating results are affected by fluctuations in commodity prices.

Copper, steel, aluminum, nickel and petrochemical products are components of the products we sell. Fluctuations in the costs of these and other commodities have historically affected our operating results. If commodity prices decline, the net realizable value of our existing inventory could be reduced, and our gross profit could be adversely affected. To the extent higher commodity prices result in increases in the costs we pay for our products, we attempt to reflect the increase in the prices we charge our customers. While we historically have been able to pass most of these cost increases on to our customers, to the extent we are unable to do so in the future, it could have a material adverse effect on our operating results. In addition, if commodity costs increase, our customers may delay or decrease their purchases of our products.

Our sales are impacted by the level of oil and gas drilling activity.

We estimate that approximately one-third of our sales directly depend upon the level of capital and operating expenditures in the oil and gas industry, including capital and other expenditures in connection with exploration, drilling, production, gathering, transportation, refining and processing operations. Demand for the products we distribute is sensitive to the level of exploration, development and production activity of, and the corresponding capital and other expenditures by, oil and gas companies. A material decline in oil or gas prices, inability to access capital, and consolidation within the industry could all depress levels of exploration, development and production activity and, therefore, could lead to a decrease in our sales due to curtailed capital and MRO expenditures.

If we are unable to maintain our relationships with our customers, it could have a material adverse effect on our financial results.

We rely on customers to purchase our industrial products. The number, size, business strategy and operations of these customers vary widely from market to market. Our success depends heavily on our ability to identify and respond to our customers' needs.

In 2018, our ten largest customers accounted for approximately 36% of our sales. If we were to lose one or more of our large customers, or if one or more of our large customers were to significantly reduce their purchases from us, and we were unable to replace the lost sales on similar terms, we could experience a significant loss of revenue and profits. In addition, if one or more of our key customers failed or were unable to pay, we could experience a write-off or write-down of the related receivables, which could adversely affect our earnings. We participate with national marketing groups and engage in joint promotional sales activities with the members of those groups. Any exclusion of us from, or refusal to allow us to participate in, such national marketing groups could have a material adverse effect on our sales and our results of operations.

An inability to obtain the products that we distribute could result in lost revenues and reduced profits and damage our relationships with customers.

In 2018, we sourced products from approximately 319 suppliers. However, we have adopted a strategy to concentrate our purchases with a small number of suppliers in order to maximize product quality, delivery dependability, purchasing efficiencies and vendor rebates. As a result, in 2018 approximately 46% of our purchases came from five suppliers. If any of these suppliers changes its sales strategy or decides to terminate its business relationship with us, our sales and earnings could be adversely affected unless and until we were able to establish relationships with suppliers of comparable products. In addition, if we are not able to obtain the products we distribute from either our current suppliers or other competitive sources, we could experience a loss of revenue, reduction in profits and damage to our relationships with our customers. Supply shortages may occur as a result of unanticipated demand or production cutbacks, shortages of raw materials, labor disputes or weather conditions affecting products or shipments, transportation disruptions or other reasons beyond our control. When shortages occur, suppliers often allocate products among their customers, and our allocations might not be adequate to meet our customers' needs.

Loss of key personnel or our inability to attract and retain new qualified personnel could hurt our ability to operate and grow successfully.

Our success is highly dependent upon the services of James L. Pohluda III, our President and Chief Executive Officer, and Christopher M. Micklas, our Chief Financial Officer. Our success will continue to depend to a significant extent on our executive officers, key management and sales personnel. We do not have key man life insurance covering any of our executive officers. We may not be able to retain our executive officers, key personnel or attract additional qualified management and sales personnel. The loss of any of our executive officers or our other key management and sales personnel or our inability to recruit and retain qualified personnel could hurt our ability to operate and make it difficult to maintain our market share and to execute our growth strategies.

A change in vendor rebate programs could adversely affect our gross margins and results of operations.

The terms on which we purchase products from many of our suppliers entitle us to receive a rebate based on the volume of our purchases. These rebates effectively reduce our costs for products. If suppliers adversely change the terms of some or all of these programs, the changes may lower our gross margins on products we sell and may have an adverse effect on our operating results.

If we encounter difficulties with our management information systems, including cyber-attacks, we would experience problems managing our business.

We believe our management information systems are a competitive advantage in maintaining a leadership position in the industrial supply industry. We rely upon our management information systems to manage and replenish inventory, determine pricing, fill and ship orders on a timely basis and coordinate our sales and marketing activities. If we experience problems with our management information systems, we could experience product shortages, diminished inventory control or an increase in accounts receivable. Any failure by us to maintain our management information systems could adversely impact our ability to attract and serve customers and would cause us to incur higher operating costs and experience reduced profitability.

An increase in competition could decrease sales or earnings.

We operate in a highly competitive industry. We compete directly with national, regional and local providers of industrial products. Competition is primarily focused in the local service area and is generally based on product line breadth, quality, product availability, service capabilities and price. Some of our existing competitors have, and new market entrants may have, greater financial and marketing resources than we do. To the extent existing or future competitors seek to gain or retain market share by reducing prices, we may be required to lower our prices, thereby adversely affecting our financial results. Existing or future competitors also may seek to compete with us for acquisitions, which could have the effect of increasing the price and reducing the number of suitable acquisitions. Other companies, including our current customers, could seek to compete directly with our private branded products, which could adversely affect our sales of those products and ultimately our financial results. Our existing customers, as well as suppliers, could seek to compete with us by offering services similar to ours, which could adversely affect our market share and our financial results. In addition, competitive pressures resulting from economic conditions and the industry trend toward consolidation could adversely affect our growth and profit margins.

We may not be able to successfully identify acquisition candidates, effectively integrate newly acquired businesses into our operations or achieve expected profitability from our acquisitions.

To supplement our growth, we intend to selectively pursue acquisition opportunities. If we are not successful in finding attractive acquisition candidates that we can acquire on satisfactory terms, or if we cannot complete those acquisitions that we identify, we will not be able to realize the benefit of this growth strategy.

Acquisitions involve numerous possible risks, including unforeseen difficulties in integrating operations, technologies, services, accounting and personnel; the diversion of financial and management resources from existing operations; unforeseen difficulties related to entering geographic regions or target markets where we do not have prior experience; the potential loss of key employees; and the inability to generate sufficient profits to offset acquisition or investment-related expenses. If we finance acquisitions by issuing equity securities or securities convertible into equity securities, our existing stockholders could be diluted, which, in turn, could adversely affect the market price of our stock. If we finance an acquisition with debt, it could result in higher leverage and interest costs. As a result, if we fail to evaluate and execute acquisitions properly, we might not achieve the anticipated benefits of these acquisitions, and we may incur costs in excess of what we anticipate, and goodwill impairments may result.

We are anticipating growth in the businesses we acquired in 2010 and in 2016. However, the Southwest reporting unit had an impairment of intangibles in 2018 and goodwill in 2015, and the Southern reporting unit had impairments of intangibles in 2013 and 2016 as they did not meet their financial objectives. Future goodwill and tradename impairments may result, should the acquired businesses not achieve their currently forecasted growth or profitability targets, which would adversely affect our results of operations.

We may be subject to product liability claims that could be costly and time consuming.

We sell industrial products. As a result, from time to time we have been named as a defendant in lawsuits alleging that these products caused physical injury or injury to property. We rely on product warranties and indemnities from the product manufacturers, as well as insurance that we maintain, to protect us from these claims. However, if manufacturers' warranties and indemnities and our insurance coverage are not available or inadequate to cover every claim, it could have an adverse effect on our operating results.

Changes to the U.S. tax, tariff and import/export regulations may have a negative effect on our results of operations.

We import a relatively small but growing percentage of our wire and cable products, as well as a significant portion of our hardware products, from foreign manufacturers. Changes resulting from the 2017 Tax Cuts and Jobs Act could disrupt supply chains on imported goods which could result in limited availability of supply, or cost competitiveness of supply. In addition, recent tariff proposals have created uncertainty about future trade policies and any changes in import tariffs or other trade regulations, could have a negative impact on our cash flow, and require us to change our sourcing and supply chain strategies, and adversely affect our profitability.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Facilities

We operate out of twenty-one distribution centers strategically located throughout the United States with approximately 1,019,000 square feet of distribution space. We own three facilities in Houston, Texas, including our corporate headquarters, and two facilities in Louisiana. All of the other facilities are leased, except for our three third-party logistics providers, which are provided under service agreements. Nineteen of the facilities, in addition to containing inventory for re-sale, house knowledgeable sales staff. We believe that our properties are in good operating condition and adequately serve our current business operations.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in lawsuits that are brought against us in the normal course of business. We are not currently a party to any legal proceedings that we expect, either individually or in the aggregate, to have a material adverse effect on our business or financial condition. We, along with many other defendants, have been named in a number of lawsuits in the state courts of Minnesota, North Dakota, and South Dakota alleging that certain wire and cable which may have contained asbestos caused injury to the plaintiffs who were exposed to this wire and cable. These lawsuits are individual personal injury suits that seek unspecified amounts of money damages as the sole remedy. It is not clear whether the alleged injuries occurred as a result of the wire and cable in question or whether we, in fact, distributed the wire and cable alleged to have caused any injuries. We maintain general liability insurance that, to date, has covered the defense of and all costs associated with these claims. In addition, we did not manufacture any of the wire and cable at issue, and we would rely on any warranties from the manufacturers of such cable if it were determined that any of the wire or cable that we distributed contained asbestos which caused injury to any of these plaintiffs. In connection with ALLTEL's sale of our company in 1997, ALLTEL provided indemnities with respect to costs and damages associated with these claims that we believe we could enforce if our insurance coverage proves inadequate.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

<u>Name/Office</u>	<u>Age</u>	<u>Business Experience During Last 5 Years</u>
James L. Pokluda III President and Chief Executive Officer	54	Chief Executive Officer since January 2012 and President since May 2011. Prior thereto, Vice President Sales & Marketing of the Company from April 2007 until May 2011.
Christopher M. Micklas Chief Financial Officer, Treasurer and Secretary	51	Chief Financial Officer, Treasurer and Secretary since April 2018. Prior thereto, Chief Financial Officer and Chief Accounting Officer at Par Pacific Holdings, Inc. from December 2013 until April 2017.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on The NASDAQ Global Market under the symbol "HWCC". As of January 10, 2019, there were 1,630 holders of record, including participants in security position listings. This figure does not include those beneficial holders whose shares may be held by brokerage firms and clearing agencies.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The board authorized a stock repurchase program of \$25 million in March 2014. The program has no expiration date. Purchases under the stock repurchase program were suspended in November 2016. At December 31, 2018, there was \$9.2 million available under the program to repurchase stock.

Dividend Policy

Holders of our common stock are entitled to receive dividends when, as and if declared by our Board of Directors. We paid a quarterly cash dividend from August 2007 until August 2016. The Board of Directors determined to suspend the regular dividend in November 2016, to redeploy funds for other purposes, including the Vertex acquisition.

As a holding company, our only source of funds to pay dividends is distributions from our operating subsidiaries. Our loan agreement does not limit the amount of dividends we may pay or stock we may repurchase, as long as we are not in default under the loan agreement and we maintain defined levels of fixed charge coverage and/or availability.

Securities Authorized for Issuance under Equity Compensation Plans

The information called for by this Item regarding securities available for issuance is provided in response to Item 12.

ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected financial information together with our consolidated financial statements and the related notes and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K. We have derived the consolidated statement of operations data for each of the years ended December 31, 2018, 2017 and 2016, and the consolidated balance sheet data at December 31, 2018 and 2017, from our audited financial statements, which are included in this Form 10-K. We have derived the consolidated statement of operations data for each of the years ended December 31, 2015 and 2014, and the consolidated balance sheet data at December 31, 2016, 2015 and 2014 from our audited financial statements, which are not included in this Form 10-K.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands, except share data)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Sales	\$ 356,858	\$ 317,697	\$ 261,644	\$ 308,133	\$ 390,011
Cost of sales	<u>271,650</u>	<u>245,035</u>	<u>208,694</u>	<u>242,223</u>	<u>304,073</u>
Gross profit	85,208	72,662	52,950	65,910	85,938
Operating expenses:					
Salaries and commissions	38,110	36,570	29,369	28,537	31,196
Other operating expenses	30,962	28,716	24,714	25,023	26,400
Depreciation and amortization	2,178	2,772	3,018	2,915	2,919
Impairment charge	<u>60</u>	<u>—</u>	<u>2,384</u>	<u>3,417</u>	<u>—</u>
Total operating expenses	<u>71,310</u>	<u>68,058</u>	<u>59,485</u>	<u>59,892</u>	<u>60,515</u>
Operating income (loss)	13,898	4,604	(6,535)	6,018	25,423
Interest expense	<u>2,907</u>	<u>2,073</u>	<u>845</u>	<u>901</u>	<u>1,168</u>
Income (loss) before income taxes	10,991	2,531	(7,380)	5,117	24,255
Income tax expense (benefit)	<u>2,355</u>	<u>2,753</u>	<u>(1,374)</u>	<u>3,073</u>	<u>9,283</u>
Net income (loss)	<u>\$ 8,636</u>	<u>\$ (222)</u>	<u>\$ (6,006)</u>	<u>\$ 2,044</u>	<u>\$ 14,972</u>
Earnings (loss) per share:					
Basic	<u>\$ 0.53</u>	<u>\$ (0.01)</u>	<u>\$ (0.37)</u>	<u>\$ 0.12</u>	<u>\$ 0.85</u>
Diluted	<u>\$ 0.52</u>	<u>\$ (0.01)</u>	<u>\$ (0.37)</u>	<u>\$ 0.12</u>	<u>\$ 0.85</u>
Weighted average common shares outstanding :					
Basic	<u>16,389,876</u>	<u>16,269,611</u>	<u>16,345,679</u>	<u>17,012,560</u>	<u>17,605,290</u>
Diluted	<u>16,523,599</u>	<u>16,269,611</u>	<u>16,345,679</u>	<u>17,067,593</u>	<u>17,683,931</u>

	As of December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
CONSOLIDATED BALANCE SHEET DATA:					
Cash and cash equivalents	\$ 1,393	\$ —	\$ —	\$ —	\$ —
Accounts receivable, net	\$ 59,793	\$ 57,396	\$ 44,677	\$ 46,250	\$ 61,599
Inventories, net	\$ 94,325	\$ 88,115	\$ 79,783	\$ 75,777	\$ 88,958
Total assets	\$ 203,057	\$ 194,039	\$ 175,870	\$ 159,113	\$ 189,813
Book overdraft ⁽¹⁾	\$ —	\$ 3,028	\$ 3,181	\$ 3,701	\$ 3,113
Total debt	\$ 71,316	\$ 73,555	\$ 60,388	\$ 39,188	\$ 53,847
Stockholders' equity	\$ 100,678	\$ 90,744	\$ 90,131	\$ 100,001	\$ 111,307

(1) Our book overdraft is funded by our revolving credit facility as soon as the related checks clear our disbursement accounts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences include those described in "Risk Factors" and elsewhere in this Form 10-K. Certain tabular information may not foot due to rounding.

Overview

Since our founding 43 years ago, we have grown to be a large provider of industrial products to the U.S. market. Today, we serve approximately 10,500 customers. Our products are used in MRO activities and related projects, as well as for larger-scale projects in the utility, industrial and infrastructure markets and a diverse range of industrial applications including communications, energy, engineering and construction, general manufacturing, mining, marine construction and marine transportation, infrastructure, oilfield services, petrochemical, transportation, utility, wastewater treatment and food and beverage. In the past few years, activity in the MRO market has fluctuated, while the level of competition has increased.

Our revenue is driven in part by the level of capital spending within the end-markets we serve. Because many of these end-markets defer capital expenditures during periods of economic downturns, our business has experienced cyclicality. Our revenue has been and will continue to be impacted by fluctuations in capital spending and by our ability to drive demand through our sales and marketing initiatives and the continued development and marketing of our private branded products, such as LifeGuard™. The recent increased levels of economic activity and commodity prices have impacted sales and the level of demand.

Our direct costs will continue to be influenced significantly by the prices we pay our suppliers to procure the products we distribute to our customers. Changes in these costs may result, for example, from increases or decreases in raw material costs, changes in our relationships with suppliers or changes in vendor rebates. Our operating expenses will continue to be affected by our investment in sales, marketing and customer support personnel and commissions paid to our sales force for revenue and profit generated. Some of our operating expenses are related to our fixed infrastructure, including rent, utilities, administrative salaries, maintenance, insurance and supplies. To meet our customers' needs for an extensive product offering and short delivery times, we will need to continue to maintain adequate inventory levels. Our ability to obtain this inventory will depend, in part, on our relationships with suppliers.

Critical Accounting Policies and Estimates

Critical accounting policies are those that both are important to the accurate portrayal of a company's financial condition and results of operations, and require subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

In order to prepare financial statements that conform to accounting principles generally accepted in the United States, commonly referred to as GAAP, we make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may be significantly different from our expectations.

We have identified the following accounting policies as those that require us to make the most subjective or complex judgments in order to fairly present our consolidated financial position and results of operations. Actual results in these areas could differ materially from management's estimates under different assumptions and conditions.

Inventories

Inventories are valued at the lower of cost, using the average cost method, and net realizable value. We continually monitor our inventory levels at each of our distribution centers. Our reserve for inventory is based on the age of the inventory, movements of our inventory over the prior twelve months and the experience of our purchasing and sales departments in estimating demand for the product in the succeeding year. Our inventories are generally not susceptible to technological obsolescence. A 20% change in our estimate at December 31, 2018 would have resulted in a change in income before income taxes of \$0.7 million.

Intangible Assets

The Company's intangible assets, excluding goodwill, represent tradenames and customer relationships acquired in purchase transactions. Tradenames are not being amortized and are treated as indefinite-lived assets. Tradenames are tested for recoverability in the fourth quarter of its fiscal year, or when there is a triggering event. Before testing its indefinite-lived assets, the Company considers whether or not to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value is less than its carrying amount and whether an impairment test is required. If as a result of our qualitative assessment, we determine that an impairment test is required, or alternatively, if we elect to forego the qualitative assessment, we record an impairment to intangibles for the difference in the undiscounted cash flows and the carrying value. The results of the annual qualitative test for 2018 indicated that certain of the tradenames at Southwest were impaired. Accordingly, an impairment charge of less than \$0.1 million was recorded for 2018. The annual qualitative test for 2017 showed no indications of impairment.

The Company assigns useful lives to its intangible assets based on the periods over which it expects the assets to contribute directly or indirectly to the future cash flows of the Company. Customer relationships are amortized over 6 to 9 year useful lives. If events or circumstances were to indicate that any of the Company's definite-lived intangible assets might be impaired, the Company would assess recoverability based on the estimated undiscounted future cash flows to be generated from the applicable intangible asset.

When performing quantitative assessments for impairment, we use various assumptions in determining the current fair value of these indefinite-lived intangible assets, including future expected cash flows and discount rates, as well as other fair value measures. If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be exposed to future impairment charges that could be material to our results of operations.

Goodwill

Goodwill represents the excess of the amount we paid to acquire businesses over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates and asset lives among other items. At December 31, 2018, our goodwill balance was \$22.4 million, representing 11.0% of our total assets.

The Company conducts impairment testing for goodwill annually in the fourth quarter of its fiscal year and more frequently, on an interim basis, when an event occurs or circumstances change that indicate that the fair value of a reporting unit may have declined below its carrying value. Events or circumstances which could indicate a probable impairment include, but are not limited to, financial performance, industry and market conditions, macroeconomic conditions, reporting unit-specific events, historical results of goodwill impairment testing and the timing of the last performance of a quantitative assessment.

The Company tests goodwill at the reporting unit level, which is defined as an operating segment or one level below an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. The Company determined that it has four reporting units for this purpose. Before testing goodwill, the Company considers whether or not to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount and whether an impairment test is required.

The goodwill impairment test consists of assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. The Company may bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test. The quantitative goodwill impairment test, used to identify both the existence of impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

When performing goodwill impairment testing, the fair values of reporting units are determined based on valuation techniques using the best available information. Inherent in such fair value determinations are certain judgments and estimates relating to future cash flows, including our interpretation of current economic indicators and market valuations, and assumptions about our strategic plans. In developing fair values for our reporting units, we may employ a market multiple or a discounted cash flow methodology, or a combination thereof. The market multiple methodology compares us to similar companies on the basis of risk characteristics to determine our risk profile relative to the comparable companies as a group. This analysis generally focuses on quantitative considerations, which include financial performance and other quantifiable data, and qualitative considerations, which include any factors which are expected to impact future financial performance. The most significant assumptions affecting the market multiple methodology are the market multiples and control premium. A control premium represents the value an investor would pay above non-controlling interest transaction prices in order to obtain a controlling interest in the respective unit.

The discounted cash flow methodology establishes fair value by estimating the present value of the projected future cash flows to be generated from the reporting unit. The discount rate applied to the projected future cash flows to arrive at the present value is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. The discounted cash flow methodology uses our projections of financial performance. The most significant assumptions used in the discounted cash flow methodology are the discount rate and expected future revenue and operating margins, which vary among reporting units. If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be exposed to future impairment losses that could be material to our results of operations.

Income Taxes

The Company determines deferred tax assets and liabilities based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. On December 22, 2017, the Tax Cuts and Jobs Act (“the Act”) was signed into law, making significant changes to the US Internal Revenue Code. As of December 31, 2018, the Company completed its analysis of its accounting for the income tax effects of tax reform and as a result, no additional adjustments were recorded.

Estimates, judgments and assumptions are required in determining whether deferred tax assets will be fully or partially realized. The Company establishes a valuation allowance to reduce the deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In evaluating the ability to realize deferred tax assets, the Company considers all available positive and negative evidence, in determining whether, based on the weight of that evidence, a valuation allowance is needed for part or all of the deferred tax assets. In determining the need for a valuation allowance on the Company’s deferred tax assets, the Company places greater weight on recent and objectively verifiable current information, as compared to more forward-looking information that is used in valuing other assets on the balance sheet. The Company has considered taxable income in prior carryback years, future reversals of existing taxable temporary differences, future taxable income, and tax planning strategies in assessing the need for the valuation allowance.

The Company establishes liabilities for estimated tax issues, and the provisions and benefits resulting from changes to those liabilities are included in our annual tax provision along with related interest. The Company recognizes interest on any tax issue as a component of interest expense and any related penalties in other operating expenses.

Sales

Our primary source of revenue is the sale of industrial products based upon purchase orders or contracts with customers, as well as billing for freight charges. Revenue is recognized at a point in time once we have determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the product is shipped, or delivered (either by customer pickup or through common carrier). Sales incentives earned by customers are accrued in the same month as the shipment is invoiced and are accounted for as a reduction in sales.

Cost of Sales

Cost of sales consists primarily of the average cost of the industrial products that we sell. We also incur shipping and handling costs in the normal course of business. Cost of sales also reflects cash discounts for prompt payment to vendors and vendor rebates generally related to annual purchase targets, as well as inventory obsolescence charges.

Operating Expenses

Operating expenses include all expenses, excluding freight, incurred to receive, sell and ship product and administer the operations of the Company.

Salaries and Commissions. Salary expense includes the base compensation, and any overtime earned by hourly personnel, for all sales, administrative and warehouse employees and stock compensation expense for options and restricted stock granted to employees. Commission expense is earned by inside sales personnel based on gross profit dollars generated, by field sales personnel from generating sales and meeting various objectives, by sales, national and marketing managers for driving the sales process, by region managers based on the profitability of their branches and by corporate managers based primarily on our profitability and also on other operating metrics.

Other Operating Expenses. Other operating expenses include all payroll taxes, health insurance, travel expenses, public company expenses, advertising, management information system expenses, facility rent and all distribution expenses such as packaging, reels, and repair and maintenance of equipment and facilities.

Depreciation and Amortization. We incur depreciation expense on costs related to capitalized property and equipment on a straight-line basis over the estimated useful lives of the assets, which range from three to thirty years. We incur amortization expense on leasehold improvements and capital leases over the shorter of the lease term or the life of the related asset and on intangible assets over the estimated life of the asset.

Interest Expense

Interest expense consists primarily of interest we incur on our debt.

Results of Operations

The following discussion compares our results of operations for the years ended December 31, 2018, 2017 and 2016.

The following table shows, for the periods indicated, information derived from our consolidated statements of operations, expressed as a percentage of sales for the period presented.

	Year Ended December 31,		
	2018	2017	2016
Sales	100.0%	100.0%	100.0%
Cost of sales	76.1%	77.1%	79.8%
Gross profit	23.9%	22.9%	20.2%
Operating expenses:			
Salaries and commissions	10.7%	11.5%	11.2%
Other operating expenses	8.7%	9.0%	9.4%
Depreciation and amortization	0.6%	0.9%	1.2%
Impairment charge	0.0%	0.0%	0.9%
Total operating expenses	20.0%	21.4%	22.7%
Operating income (loss)	3.9%	1.4%	(2.5)%
Interest expense	0.8%	0.7%	0.3%
Income (loss) before income taxes	3.1%	0.8%	(2.8)%
Income tax expense (benefit)	0.7%	0.9%	(0.5)%
Net income (loss)	2.4%	(0.1)%	(2.3)%

Note: Due to rounding, percentages may not add up to total operating expenses, operating income (loss), income (loss) before income taxes or net income (loss).

Comparison of Years Ended December 31, 2018 and 2017

Sales

(Dollars in millions)	Year Ended December 31,			Change
	2018	2017		
Sales	\$ 356.9	\$ 317.7	\$ 39.2	12.3%

Our sales in 2018 increased \$39.2 million or 12.3% from 2017. The increase in sales was primarily due to improved industrial activity and disciplined pricing. We estimate sales for our project business, which targets end markets, encompassing Environmental Compliance, Engineering & Construction, Industrials, Utility Power Generation, and Mechanical Wire Rope, increased 17%, while Maintenance, Repair, and Operations (MRO) sales increased 11%, as compared to 2017.

Gross Profit

(Dollars in millions)	Year Ended December 31,			Change
	2018	2017		
Gross profit	\$ 85.2	\$ 72.7	\$ 12.5	17.3%
Gross profit as a percent of sales	23.9%	22.9%		

Gross profit increased \$12.5 million or 17.3% from 2017. The increase in gross profit was primarily due to increased sales. Gross margin (gross profit as a percentage of sales) increased to 23.9% in 2018 from 22.9% in 2017 primarily due to ongoing pricing discipline and product mix.

Operating Expenses

(Dollars in millions)	Year Ended December 31,			Change
	2018	2017		
Operating expenses:				
Salaries and commissions	\$ 38.1	\$ 36.6	\$ 1.5	4.2%
Other operating expenses	31.0	28.7	2.2	7.8%
Depreciation and amortization	2.2	2.8	(0.6)	(21.4)%
Impairment charge	0.1	—	0.1	100.0%
Total operating expenses	<u>\$ 71.3</u>	<u>\$ 68.1</u>	<u>\$ 3.3</u>	4.8%
Operating expenses as a percent of sales	20.0%	21.4%		

Note: Due to rounding, numbers may not add up to total operating expenses.

Salaries and Commissions. Salaries and commissions increased \$1.5 million or 4.2% primarily due to additional sales and warehouse personnel, as well as an increase in commissions due to higher sales and gross profit.

Other Operating Expenses. Other operating expenses increased \$2.2 million or 7.8% primarily due to additional warehouse distribution expenses as sales increased and increased administrative expenses due to increased personnel.

Depreciation and Amortization. Depreciation and amortization decreased slightly to \$2.2 million in 2018 from \$2.8 million in 2017 primarily due to the full amortization of the Southern Wire reporting unit tradenames in 2017.

Impairment Charge. The Company recorded a non-cash impairment charge in 2018 with respect to tradenames at its Southwest Wire Rope reporting unit. (See Note 3 to our Consolidated Financial Statements)

Operating expenses as a percentage of sales decreased to 20.0% in 2018 from 21.4% in 2017. This decrease primarily relates to the leverage obtained from increased sales, which rose at a higher rate than the increase in operating expenses.

Interest Expense

Interest expense increased 40.2% to \$2.9 million in 2018 from \$2.1 million in 2017 due to higher average debt to fund increased working capital and an increase in the average effective interest rate. Average debt was \$76.8 million in 2018 compared to \$71.8 million in 2017. The average effective interest rate increased to 3.7% in 2018 from 2.8% in 2017.

Income Tax

Income tax expense decreased 14.5% to \$2.4 million in 2018 from \$2.8 million in 2017. The effective income tax rate was 21.4% in 2018 compared to 108.8% in 2017. The 2018 tax rate included a benefit of (9.5%) for the release of the valuation allowance on our net deferred tax assets and 1.2% for share-based compensation. This compares to the 2017 tax rate which included a 41.0% charge for the establishment of a valuation allowance on our net deferred tax assets, 15.2% for share-based compensation expense and a 12.9% charge for deferred tax assets in respect of the tax reform rate change.

Net Income (Loss)

We achieved net income of \$8.6 million in 2018 compared to a net loss of \$0.2 million in 2017.

Comparison of Years Ended December 31, 2017 and 2016

Sales

(Dollars in millions)	Year Ended December 31,			
	2017	2016	Change	
Sales	\$ 317.7	\$ 261.6	\$ 56.1	21.4%

Our sales in 2017 increased \$56.1 million or 21.4% from 2016. The increase in sales was primarily attributable to an increase in sales of \$31.3 million, or 12.5%, together with the inclusion of a full year of Vertex's sales, which was \$24.7 million more than sales of Vertex included in the 2016 financial statements, following its acquisition on October 3, 2016. We estimate sales for our project business, which targets end markets, encompassing Environmental Compliance, Engineering & Construction, Industrials, Utility Power Generation, and Mechanical Wire Rope, increased 3%, while MRO sales increased 15%, as compared to 2016.

Gross Profit

(Dollars in millions)	Year Ended December 31,			
	2017	2016	Change	
Gross profit	\$ 72.7	\$ 53.0	\$ 19.7	37.2%
Gross profit as a percent of sales	22.9%	20.2%		

Gross profit increased \$19.7 million or 37.2% from 2016. The increase was primarily attributable to the increase in sales, including a full year of Vertex's sales, higher product margins and the higher margins generated by Vertex.

Operating Expenses

(Dollars in millions)	Year Ended December 31,			
	2017	2016	Change	
Operating expenses:				
Salaries and commissions	\$ 36.6	\$ 29.4	\$ 7.2	24.5%
Other operating expenses	28.7	24.7	4.0	16.2%
Depreciation and amortization	2.8	3.0	(0.2)	(8.2)%
Impairment charge	—	2.4	(2.4)	(100.0)%
Total operating expenses	\$ 68.1	\$ 59.5	\$ 8.6	14.4%
Operating expenses as a percent of sales	21.4%	22.7%		

Note: Due to rounding, numbers may not add up to total operating expenses.

Salaries and Commissions. Salaries and commissions increased \$7.2 million or 24.5%, which included Vertex's salaries and commissions for a full year, an increase in commissions due to higher sales and profitability and higher distribution labor costs due to higher activity levels.

Other Operating Expenses. Other operating expenses increased \$4.0 million or 16.2%, which included operating expenses of Vertex for a full year and additional warehouse distribution expenses as sales increased.

Depreciation and Amortization. Depreciation and amortization decreased slightly to \$2.8 million in 2017 from \$3.0 million in 2016.

Impairment Charge. The Company recorded a non-cash impairment charge in 2016 with respect to goodwill at its HWC reporting unit and tradenames at its Southern Wire reporting unit. (See Note 3 to our Consolidated Financial Statements)

Operating expenses as a percentage of sales decreased to 21.4% in 2017 from 22.7% in 2016. This decrease primarily relates to the leverage obtained from increased sales, which rose at a higher rate than operating expenses, and the absence of an impairment charge in 2017.

Interest Expense

Interest expense increased 145.3% to \$2.1 million in 2017 from \$0.8 million in 2016 due to higher average debt primarily as a result of borrowing to finance the Vertex acquisition. Average debt was \$71.8 million in 2017 compared to \$40.0 million in 2016. The average effective interest rate increased to 2.8% in 2017 from 2.0% in 2016.

Income Tax

We recorded an income tax charge of \$2.8 million in 2017, compared to an income tax benefit of \$1.4 million in 2016. The effective income tax rate was 108.8% in 2017 compared to an income tax benefit of 18.6% in 2016. The 2017 tax rate included a 41.0% charge for the establishment of a valuation allowance on our net deferred tax assets, 15.2% for share-based compensation expense and a 12.9% charge for deferred tax assets in respect of the tax reform rate change.

Net Loss

We sustained a net loss of \$0.2 million in 2017 compared to a net loss of \$6.0 million in 2016.

Impact of Inflation and Commodity Prices

Our results of operations are affected by changes in the inflation rate and commodity prices. Moreover, because copper, steel, aluminum, nickel and petrochemical products are components of the industrial products we sell, fluctuations in the costs of these and other commodities have historically affected our operating results. To the extent commodity prices decline, the net realizable value of our existing inventory could also decline, and our gross profit can be adversely affected because of either reduced selling prices or lower of cost or net realizable value adjustments in the carrying value of our inventory. We turn our inventory approximately three times a year, therefore, the impact of changes in commodity prices in any particular quarter would primarily affect the results of the succeeding two calendar quarters. If we are unable to pass on to our customers future cost increases due to inflation or rising commodity prices, our operating results could be adversely affected.

Liquidity and Capital Resources

Our primary capital needs are for working capital obligations, capital expenditures, and other general corporate purposes, including acquisitions. Our primary sources of working capital are cash from operations supplemented by bank borrowings.

Liquidity is defined as the ability to generate adequate amounts of cash to meet the current need for cash. We assess our liquidity in terms of our ability to generate cash to fund our operating activities. Significant factors which could affect liquidity include the following:

- the adequacy of available bank lines of credit;
- cash flows generated from operating activities;
- capital expenditures;
- acquisitions; and
- the ability to attract long-term capital with satisfactory terms

Comparison of Years Ended December 31, 2018 and 2017

Our net cash provided by operating activities was \$5.3 million in 2018 compared to net cash used in operating activities of \$11.3 million in 2017. We had net income of \$8.6 million in 2018 compared to a net loss of \$0.2 million in 2017.

Changes in our operating assets and liabilities resulted in cash used in operating activities of \$6.2 million in 2018. Inventories increased \$6.8 million in alignment with the increase in sales volume. Accounts receivable increased \$2.5 million, primarily due to increased sales in 2018. Partially offsetting these uses of cash was the decrease in book overdraft of \$3.0 million, an increase in accounts payable of \$2.8 million, an increase in accrued and other current liabilities of \$2.5 million primarily due to increased inventory and customer volume discounts and a decrease in prepaid expenses of \$1.2 million.

Net cash used in investing activities was \$1.5 million in 2018 compared to \$1.6 million in 2017.

Net cash used in financing activities was \$2.5 million in 2018 compared to net cash provided by financing activities of \$12.9 million in 2017. Net payments under our revolver of \$2.2 million and the purchase of treasury stock of \$0.2 million were the main components of financing activities in 2018.

Comparison of Years Ended December 31, 2017 and 2016

Our net cash used in operating activities was \$11.3 million compared to net cash provided by operating activities of \$17.2 million in 2016. We had a net loss of \$0.2 million in 2017 compared to net loss of \$6.0 million in 2016.

Changes in our operating assets and liabilities resulted in cash used in operating activities of \$16.7 million in 2017. Accounts receivable increased \$12.7 million, primarily due to increased sales in 2017. Inventories increased \$7.9 million in alignment with the increase in sales. Partially offsetting these uses of cash was the increase in accrued and other current liabilities of \$3.6 million primarily due to increased customer volume discounts.

Net cash used in investing activities was \$1.6 million in 2017 compared to \$33.7 million in 2016. The decrease from the prior year was primarily due to the Vertex acquisition in October 2016.

Net cash provided by financing activities was \$12.9 million in 2017 compared to \$16.4 million in 2016. Net borrowings under our revolver of \$13.2 million to fund higher working capital requirements and the purchase of treasury stock of \$0.2 million were the main components of financing activities in 2017.

Indebtedness

Our principal source of liquidity at December 31, 2018 was working capital of \$126.2 million compared to \$119.6 million at December 31, 2017. We also had available borrowing capacity of approximately \$28.7 million at December 31, 2018 and \$23.0 million at December 31, 2017 under our loan agreement.

We believe that we will have adequate availability of capital to fund our present operations, meet our commitments on our existing debt, and fund anticipated growth over the next twelve months, including expansion in existing and targeted market areas. We continually seek potential acquisitions and from time to time hold discussions with acquisition candidates. If suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe that our financial position and earnings history provide a solid base for obtaining additional financing resources at competitive rates and terms. Additionally, based on market conditions, we may decide to issue additional shares of common or preferred stock to raise funds.

Loan and Security Agreement

HWC Wire & Cable Company, Vertex, and Bank of America, N.A., as agent and lender, are parties to the Fourth Amended and Restated Loan and Security Agreement (the "Loan Agreement"), as amended on October 3, 2016. The Loan Agreement provides a \$100 million revolving credit facility and expires on September 30, 2020. As of March 12, 2019, the expiration date has been extended to March 12, 2024. Under certain circumstances we may request an increase in the commitment by an additional \$50 million. Borrowings under the Loan Agreement bear interest at the British Bankers Association LIBOR Rate plus 100 to 150 basis points based on availability, if a LIBOR loan, or at a fluctuating rate equal to the greatest of the agent's prime rate, the federal funds rate plus 50 basis points, or LIBOR for a 30-day interest period plus 150 basis points, if a base rate loan. The unused commitment fee is 25 basis points. Availability under the Loan Agreement is limited to a borrowing base equal to 85% of the value of eligible accounts receivable, plus the lesser of 70% of the value of eligible inventory or 90% of the net orderly liquidation value percentage of the value of eligible inventory, in each case less certain reserves. The Loan Agreement is secured by substantially all of our property, other than real estate.

Covenants in the Loan Agreement require us to maintain a specified minimum fixed charge coverage ratio, unless certain availability levels exist. Repaid amounts can be re-borrowed subject to the borrowing base. As of December 31, 2018, we met the availability-based covenant.

Capital Expenditures

We made capital expenditures of \$1.5 million, \$1.8 million and \$1.3 million in the years ended December 31, 2018, 2017 and 2016, respectively.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, other than operating leases.

Financial Derivatives

We have no financial derivatives.

Climate Risk

Our operations are subject to inclement weather conditions, which could potentially be related to global warming, including hurricanes, earthquakes and abnormal weather events. Our previous experience from these events has had a minimal effect on our operations.

Factors Affecting Future Results

This Annual Report on Form 10-K contains statements that may be considered forward-looking. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "aim," "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "project," "should," "will be," "will continue," "will likely result," "would" and other words and terms of similar meaning in conjunction with a discussion of future operating or financial performance. You should read statements that contain these words carefully, because they discuss our future expectations, contain projections of our future results of operations or of our financial position or state other "forward-looking" information. Actual results could differ materially from the results indicated by these statements, because the realization of those results is subject to many risks and uncertainties. Some of these risks and uncertainties are discussed in greater detail under Item 1A, "Risk Factors."

All forward-looking statements are based on current management expectations and speak only as of the date of this filing. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention, and do not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-K.

ITEM 7A. – Not applicable and has been omitted.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Houston Wire & Cable Company

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Houston Wire & Cable Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Houston Wire & Cable Company (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1997.

Houston, Texas
March 15, 2019

Houston Wire & Cable Company
Consolidated Balance Sheets

	December 31,	
	2018	2017
	(In thousands, except share data)	
Assets		
Current assets:		
Cash	\$ 1,393	\$ —
Accounts receivable, net		
Trade	52,946	51,031
Other	6,847	6,365
Inventories, net	94,325	88,115
Income tax receivable	435	449
Prepays	737	1,938
Total current assets	156,683	147,898
Property and equipment, net	11,456	11,355
Intangible assets, net	11,179	12,015
Goodwill	22,353	22,353
Deferred income taxes	930	—
Other assets	456	418
Total assets	\$ 203,057	\$ 194,039
Liabilities and stockholders' equity		
Current liabilities:		
Book overdraft	\$ —	\$ 3,028
Trade accounts payable	11,253	8,449
Accrued and other current liabilities	19,232	16,823
Total current liabilities	30,485	28,300
Debt	71,316	73,555
Deferred income taxes	—	414
Other long-term obligations	578	1,026
Total liabilities	102,379	103,295
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized: 20,988,952 shares issued: 16,611,651 and 16,491,181 shares outstanding at December 31, 2018 and 2017, respectively	21	21
Additional paid-in capital	53,514	54,006
Retained earnings	105,975	97,336
Treasury stock	(58,832)	(60,619)
Total stockholders' equity	100,678	90,744
Total liabilities and stockholders' equity	\$ 203,057	\$ 194,039

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

Houston Wire & Cable Company
Consolidated Statements of Operations

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except share and per share data)		
Sales	\$ 356,858	\$ 317,697	\$ 261,644
Cost of sales	271,650	245,035	208,694
Gross profit	85,208	72,662	52,950
Operating expenses:			
Salaries and commissions	38,110	36,570	29,369
Other operating expenses	30,962	28,716	24,714
Depreciation and amortization	2,178	2,772	3,018
Impairment charge	60	—	2,384
Total operating expenses	71,310	68,058	59,485
Operating income (loss)	13,898	4,604	(6,535)
Interest expense	2,907	2,073	845
Income (loss) before income taxes	10,991	2,531	(7,380)
Income tax expense (benefit)	2,355	2,753	(1,374)
Net income (loss)	\$ 8,636	\$ (222)	\$ (6,006)
Earnings (loss) per share:			
Basic	\$ 0.53	\$ (0.01)	\$ (0.37)
Diluted	\$ 0.52	\$ (0.01)	\$ (0.37)
Weighted average common shares outstanding:			
Basic	16,389,876	16,269,611	16,345,679
Diluted	16,523,599	16,269,611	16,345,679
Dividends declared per share	\$ —	\$ —	\$ 0.15

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

Houston Wire & Cable Company
Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
	(In thousands, except share data)						
Balance at January 1, 2016	20,988,952	\$ 21	\$ 54,621	\$ 106,048	(4,276,326)	\$ (60,689)	\$ 100,001
Net loss	—	—	—	(6,006)	—	—	(6,006)
Repurchase of treasury shares	—	—	—	—	(376,860)	(2,228)	(2,228)
Amortization of unearned stock compensation	—	—	856	—	—	—	856
Impact of forfeited awards	—	—	387	—	(28,295)	(387)	—
Impact of released vested restricted stock units	—	—	(284)	—	20,416	284	—
Issuance of restricted stock awards	—	—	(1,756)	—	129,638	1,756	—
Dividends on common stock	—	—	—	(2,492)	—	—	(2,492)
Balance at December 31, 2016	20,988,952	21	53,824	97,550	(4,531,427)	(61,264)	90,131
Net loss	—	—	—	(222)	—	—	(222)
Repurchase of treasury shares	—	—	—	—	(27,156)	(177)	(177)
Amortization of unearned stock compensation	—	—	1,004	—	—	—	1,004
Impact of forfeited awards	—	—	361	—	(26,707)	(361)	—
Impact of released vested restricted stock units	—	—	(372)	—	27,519	372	—
Issuance of restricted stock awards	—	—	(811)	—	60,000	811	—
Dividends accrual reversal	—	—	—	8	—	—	8
Balance at December 31, 2017	20,988,952	21	54,006	97,336	(4,497,771)	(60,619)	90,744
Net income	—	—	—	8,636	—	—	8,636
Repurchase of treasury shares	—	—	—	—	(25,368)	(175)	(175)
Amortization of unearned stock compensation	—	—	1,059	—	—	—	1,059
Amortization of reclassified liability awards	—	—	411	—	—	—	411
Impact of forfeited awards	—	—	179	—	(13,332)	(179)	—
Impact of released vested restricted stock units	—	—	(353)	—	26,185	353	—
Issuance of restricted stock awards	—	—	(1,788)	—	132,985	1,788	—
Dividend accrual reversal	—	—	—	3	—	—	3
Balance at December 31, 2018	<u>20,988,952</u>	<u>\$ 21</u>	<u>\$ 53,514</u>	<u>\$ 105,975</u>	<u>(4,377,301)</u>	<u>\$ (58,832)</u>	<u>\$ 100,678</u>

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

Houston Wire & Cable Company
Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Operating activities			
Net income (loss)	\$ 8,636	\$ (222)	\$ (6,006)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Impairment charge	60	—	2,384
Depreciation and amortization	2,178	2,772	3,018
Amortization of unearned stock compensation	1,298	1,176	856
Provision for doubtful accounts	73	68	285
Provision for inventory obsolescence	615	34	93
Deferred income taxes	(1,344)	1,314	6
Other non-cash items	62	222	(116)
Changes in operating assets and liabilities:			
Accounts receivable	(2,507)	(12,719)	4,019
Inventories	(6,825)	(7,942)	10,483
Income taxes	14	1,499	(1,016)
Prepaid expenses	1,201	(1,368)	124
Book overdraft	(3,028)	(153)	(517)
Trade accounts payable	2,804	38	896
Accrued and other current liabilities	2,460	3,571	2,587
Other operating activities	(359)	368	147
Net cash provided by (used in) operating activities	5,338	(11,342)	17,243
Investing activities			
Expenditures for property and equipment	(1,503)	(1,769)	(1,319)
Proceeds from disposals of property and equipment	20	8	5
Cash refunded (paid) for acquisition	—	193	(32,370)
Net cash used in investing activities	(1,483)	(1,568)	(33,684)
Financing activities			
Borrowings on revolver	367,513	333,301	302,898
Payments on revolver	(369,752)	(320,133)	(281,698)
Proceeds from exercise of stock options	—	—	—
Payment of dividends	(48)	(81)	(2,495)
Purchase of treasury stock	(175)	(177)	(2,264)
Net cash (used in) provided by financing activities	(2,462)	12,910	16,441
Net change in cash	1,393	—	—
Cash at beginning of year	—	—	—
Cash at end of year	\$ 1,393	\$ —	\$ —
Supplemental disclosures			
Cash paid during the year for interest	\$ 2,811	\$ 1,961	\$ 728
Cash paid during the year for income taxes	\$ 3,696	\$ 64	\$ 233

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

Houston Wire & Cable Company
Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Description of Business

Houston Wire & Cable Company (the “Company”), through its wholly owned subsidiaries, provides industrial products to the U.S. market through twenty-one locations in fourteen states throughout the United States. The Company has no other business activity.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared following accounting principles generally accepted in the United States (“GAAP”) and the requirements of the Securities and Exchange Commission (“SEC”). The financial statements include all normal and recurring adjustments that are necessary for a fair presentation of the Company’s financial position and operating results. All significant inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant estimates are those relating to the allowance for doubtful accounts, the refund liability, the inventory obsolescence reserve, vendor rebates, the realization of deferred tax assets and the valuation of goodwill and indefinite-lived assets. Actual results could differ materially from the estimates and assumptions used for the preparation of the financial statements.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Earnings (loss) per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings (loss) per share include the dilutive effects of option and unvested restricted stock awards and units.

The following reconciles the denominator used in the calculation of diluted earnings (loss) per share:

	Year Ended December 31,		
	2018	2017	2016
Denominator:			
Weighted average common shares for basic earnings per share	16,389,876	16,269,611	16,345,679
Effect of dilutive securities	133,723	—	—
Denominator for diluted earnings per share	16,523,599	16,269,611	16,345,679

Stock awards to purchase 298,406, 808,391 and 685,054 shares of common stock were not included in the diluted net income (loss) per share calculation for 2018, 2017 and 2016, respectively, as their inclusion would have been anti-dilutive. In 2017 and for the first quarter of 2018, the Company calculated earnings per share using the “two-class” method, whereby unvested share-based payment awards that contained non-forfeitable rights to dividends or dividend equivalents were considered “participating securities”, as discussed in Note 8, and therefore, these participating securities were treated as a separate class in computing earnings per share.

Accounts Receivable

Accounts receivable consists primarily of receivables from customers, less an allowance for doubtful accounts of \$0.2 million at December 31, 2018 and 2017, and a reserve for returns and allowances of \$0.4 million at December 31, 2017. In 2018, the reserve for returns and allowances has been reclassified to accrued liabilities as a refund liability as a result of the adoption of the new revenue recognition standard. The Company has no contractual repurchase arrangements with its customers. Credit losses have been within management’s expectations.

The following table summarizes the changes in the allowance for doubtful accounts for the past three years:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(In thousands)		
Balance at beginning of year	\$ 172	\$ 151	\$ 132
Bad debt expense	73	68	285
Write-offs, net of recoveries	(63)	(47)	(266)
Balance at end of year	<u>\$ 182</u>	<u>\$ 172</u>	<u>\$ 151</u>

Inventories

Inventories are carried at the lower of cost, using the average cost method, and net realizable value and consist primarily of goods purchased for resale, less a reserve for obsolescence and unusable items and unamortized vendor rebates. The reserve for inventory is based upon a number of factors, including the experience of the purchasing and sales departments, age of the inventory, new product offerings, and other factors. The reserve for inventory may periodically require adjustment as the factors identified above change.

The following table summarizes the changes in the inventory reserves for the past three years:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(In thousands)		
Balance at beginning of year	\$ 3,925	\$ 4,366	\$ 4,829
Provision for inventory write-downs	615	34	93
Deduction for inventory write-offs	(831)	(475)	(556)
Balance at end of year	<u>\$ 3,709</u>	<u>\$ 3,925</u>	<u>\$ 4,366</u>

Vendor Rebates

Under many of the Company's arrangements with its vendors, the Company receives a rebate of a specified amount of consideration, payable when the Company achieves any of a number of measures, generally related to the volume level of purchases from the vendors. The Company accounts for such rebates as a reduction of the prices of the vendors' products and therefore as a reduction of inventory until it sells the products, at which time such rebates reduce cost of sales in the accompanying consolidated statements of operations. Throughout the year, the Company estimates the amount of the rebates earned based on purchases to date relative to the total purchase levels expected to be achieved during the rebate period. The Company continually revises these estimates to reflect rebates expected to be earned based on actual purchase levels and forecasted purchase volumes for the remainder of the rebate period.

Property and Equipment

The Company provides for depreciation on a straight-line method over the following estimated useful lives:

Buildings	25 to 30 years
Machinery and equipment	3 to 10 years

Leasehold improvements are depreciated over their estimated life or the term of the lease, whichever is shorter.

Total depreciation expense was approximately \$1.4 million for the each of the years ended December 31, 2018 and 2017, and \$1.3 million for the year ended December 31, 2016.

Goodwill

Goodwill represents the excess of the amount paid to acquire businesses over the estimated fair value of tangible assets and identifiable intangible assets acquired, less liabilities assumed. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash flows, discount rates and asset lives among other items. At December 31, 2018, the goodwill balance was \$22.4 million, representing 11.0% of the Company's total assets.

The Company conducts impairment testing for goodwill annually in the fourth quarter of its fiscal year and more frequently, on an interim basis, when an event occurs or circumstances change that indicate that the fair value of a reporting unit may have declined below its carrying value. Events or circumstances which could indicate a probable impairment include, but are not limited to, financial performance, industry and market conditions, macroeconomic conditions, reporting unit-specific events, historical results of goodwill impairment testing and the timing of the last performance of a quantitative assessment.

The Company tests goodwill at the reporting unit level, which is defined as an operating segment or one level below an operating segment that constitutes a business for which financial information is available and is regularly reviewed by management. The Company determined that it has four reporting units for this purpose. Before testing goodwill, the Company considers whether or not to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount and whether an impairment test is required. If as a result of the qualitative assessment, the Company determines that an impairment test is required, or alternatively, if the Company elects to forego the qualitative assessment, the Company records an impairment to goodwill to the extent the carrying amount of the reporting unit, including goodwill, exceeds the fair value of the reporting unit.

Intangibles

Intangible assets, from the acquisition of Southwest and Southern in 2010 and the acquisition of Vertex in October 2016, consist of customer relationships and tradenames. The customer relationships are amortized over 6 to 9 year useful lives. If events or circumstances were to indicate that any of the Company's definite-lived intangible assets might be impaired, the Company would assess recoverability based on the estimated undiscounted future cash flows to be generated from the applicable intangible asset. If the undiscounted cash flows were less than the carrying value, then the intangible assets would be written down to their fair value. Tradenames have an indefinite life and are not being amortized and are tested for impairment on an annual basis.

Self Insurance

The Company retains certain self-insurance risks for both health benefits and property and casualty insurance programs. The Company limits its exposure to these self-insurance risks by maintaining excess and aggregate liability coverage. Self-insurance reserves are established based on claims filed and estimates of claims incurred but not reported. The estimates are based on information provided to the Company by its claims administrators.

Segment Reporting

The Company operates in a single operating and reportable segment, sales of industrial products, including electrical and mechanical wire and cable, industrial fasteners, hardware and related services to the U.S. market. The Company's chief operating decision maker ("CODM") is its Chief Executive Officer. The CODM makes operational and resource decisions based on company-wide sales and margin performance compared to the established strategic goals of the Company.

Revenue Recognition, Returns & Allowances

The Company's primary source of revenue is the sale of industrial products based upon purchase orders or contracts with customers. Revenue is recognized at a point in time once the Company has determined that the customer has obtained control over the product. Control is typically deemed to have been transferred to the customer when the product is shipped, or delivered (either by customer pickup or through common carrier). It is not normal Company practice to grant extended payment terms. Revenue is recognized net of any sales taxes collected, which are subsequently remitted to the appropriate taxing authorities. The Company treats its transportation costs (shipping and handling) as fulfillment costs and not as a separate performance obligation. These transportation costs are recorded in cost of sales.

The amount of revenue recognized reflects the consideration the Company expects to be entitled to receive in exchange for products sold. Revenue is recorded at the transaction price net of estimates of variable consideration, which may include product returns, trade discounts and allowances. The Company accrues for variable consideration using the expected value method. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Customers are permitted to return product only on a case-by-case basis. Product exchanges are handled as a credit, with any replacement item being re-invoiced to the customer. Customer returns are recorded as an adjustment to sales. As a result of the adoption of the new revenue recognition standard, the reserve for returns and allowances has been reclassified from a contra-accounts receivable account to a liability account. The Company has no installation obligations.

The Company may offer sales incentives, which are accrued monthly as an adjustment to sales.

Shipping and Handling

The Company incurs shipping and handling costs in the normal course of business. Freight amounts invoiced to customers are included as sales, and freight charges are included as a component of cost of sales.

Credit Risk

No single customer accounted for 10% or more of the Company's sales in 2018, 2017 or 2016. The Company performs periodic credit evaluations of its customers and generally does not require collateral.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expenses were \$0.5 million for each of the years ended December 31, 2018 and 2017 and \$0.4 million for the year ended December 31, 2016.

Financial Instruments

The carrying values of accounts receivable, trade accounts payable and accrued and other current liabilities approximate fair value, due to the short maturity of these instruments.

Stock-Based Compensation

Restricted stock awards, units and cash awards are valued at the closing price of the Company's stock on the grant date and are granted under the Company's 2017 Stock Plan. Stock options issued under the Company's now-expired 2006 Stock Plan had an exercise price equal to the fair value of the Company's stock on the grant date. The Company recognizes compensation expense ratably over the vesting period. The Company's stock-based compensation expense is included in salaries and commissions expense for employees and in other operating expenses for non-employee directors in the accompanying consolidated statements of operations.

The Company receives a tax deduction for certain stock option exercises in the period in which the options are exercised, generally for the excess of the market price on the date of exercise over the exercise price of the options. The Company reports excess tax benefits from the award of equity instruments as financing cash flows. Excess tax benefits result when a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance for deferred tax assets is recognized when it is more likely than not that some or all of the benefit from the deferred tax assets will not be realized. To assess that likelihood, the Company uses its current financial position, results of operations, both actual and forecasted, the reversal of deferred tax liabilities, and tax planning strategies to determine whether a valuation allowance is required.

Recently Adopted Accounting Standards

The Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") is the sole source of authoritative GAAP other than SEC issued rules and regulations that apply only to SEC registrants. The FASB issues an Accounting Standard Update ("ASU") to communicate changes to the codification. The Company considers the applicability and impact of all ASUs. The following are those recent ASUs that were recently adopted by the Company.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in the ASU were effective for annual and interim periods beginning after December 15, 2017. The Company adopted this ASU effective January 1, 2018, using the modified retrospective method, and adoption did not have a material impact on the Company's consolidated financial statements. See above for the Company's updated revenue recognition policy.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting.” The amendments in this update provide guidance about which changes to the terms and conditions of a share-based payment award require the application of modification accounting. This update was effective for public companies for annual periods beginning after December 15, 2017. The Company adopted this ASU in the first quarter of 2018 and the adoption did not have a material impact on the Company’s consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The new guidance requires that an employer disaggregate the service cost component from the other components of net benefit cost. This update was effective for public companies for annual periods beginning after December 15, 2017. The Company adopted this ASU in the first quarter of 2018 and the adoption did not have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The amendment in this ASU amends prior guidance and simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the two-step impairment test under ASC 350. ASU No. 2017-04 is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company elected to early adopt this ASU in the first quarter of 2018 and the adoption did not have a material impact on the Company’s consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, “Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update).” This ASU added the SEC guidance released on December 22, 2017 regarding the income tax accounting implication of the Tax Cuts and Jobs Act to ASC Topic 740. At December 31, 2018, the Company has not made a material adjustment to the tax provision recorded under this ASU at December 31, 2017. The Company has completed its accounting for all of the tax effects of the Tax Cuts and Jobs Act.

Recent Accounting Pronouncements

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.” The amendments in this update eliminate, add and modify certain disclosure requirements for fair value measurements as part of its disclosure framework project. The guidance is effective for public companies beginning in the first quarter of 2020 and early adoption is permitted. The Company is currently assessing the impact of this ASU on its consolidated financial statements and evaluating the timing of adoption.

In August 2018, the FASB issued ASU 2018-14, “Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans.” The amendments in this update eliminate, add and modify certain disclosure requirements for defined benefit pension plans. The guidance is effective for public companies beginning in the first quarter of 2020 and early adoption is permitted. The Company is currently assessing the impact of this ASU on its consolidated financial statements and evaluating the timing of adoption.

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.” The amendments in this update require implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software, and deferred over the non-cancellable term of the cloud computing arrangement plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. The guidance is effective for public companies beginning in the first quarter of 2020 and early adoption is permitted. The Company is currently assessing the impact of this ASU on its consolidated financial statements and evaluating the timing of adoption.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting” that simplifies the accounting for share-based payment arrangements with nonemployees for goods and services. Under the ASU, the guidance on such payments to nonemployees is aligned with the accounting for share-based payments granted to employees, including the measurement of equity-classified awards, which is fixed at the grant date under the new guidance. The ASU supersedes Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees and is effective for public entities for interim and annual reporting periods beginning after December 15, 2018. The Company is assessing ASU 2018-07 and does not expect it to have a material impact on its accounting and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Under the new guidance, a lessee will be required to recognize a right-to-use asset and a lease liability for leases greater than 1 year, both capital and operating leases. This update is effective for public companies for fiscal years beginning after December 15, 2018 with early adoption permitted. In August 2018, the FASB amended the ASU with an additional (and optional) transition method to adopt the new leases standard. Under the new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative effect adjustment to the opening balance of retained earnings

in the period of adoption and the comparative periods presented in the financial statements continue to be in accordance with current GAAP. The Company will elect to use the package of practical expedients available under this amendment and will not elect the use of hindsight during transition. The Company has identified its leases or other contracts impacted by the new standard and is currently in the process of (i) finalizing the implementation of a software solution to account for leases under the new standard and (ii) updating its business processes and related policies, systems and controls to support recognition and disclosure under the new standard. The Company is still evaluating the impact that adopting this guidance will have on its consolidated financial statements.

2. Detail of Selected Balance Sheet Accounts

Property and Equipment

Property and equipment are stated at cost and consist of:

	At December 31,	
	2018	2017
	(In thousands)	
Land	\$ 2,476	\$ 2,476
Buildings	8,501	8,207
Machinery and equipment	14,867	14,165
	<u>25,844</u>	<u>24,848</u>
Less accumulated depreciation	14,388	13,493
Total	<u>\$ 11,456</u>	<u>\$ 11,355</u>

Intangible assets

Intangible assets consist of:

	At December 31,	
	2018	2017
	(In thousands)	
Tradenames	\$ 5,936	\$ 5,996
Customer relationships	18,620	18,620
	<u>24,556</u>	<u>24,616</u>
Less accumulated amortization:		
Tradenames	—	—
Customer relationships	13,377	12,601
	<u>13,377</u>	<u>12,601</u>
Total	<u>\$ 11,179</u>	<u>\$ 12,015</u>

Intangible assets include customer relationships which are being amortized over 6 to 9 year useful lives. Tradenames have an indefinite life and are not amortized; however, they are tested annually for impairment. As of December 31, 2018, accumulated amortization on the acquired intangible assets was \$13.4 million, and amortization expense was \$0.8 million in the year ended December 31, 2018, \$1.4 million in the year ended December 31, 2017 and \$1.7 million in the year ended December 31, 2016. Future amortization expense to be recognized on the acquired intangible assets is expected to be as follows:

	Annual Amortization Expense
	(In thousands)
2019	\$ 777
2020	777
2021	777
2022	777
2023	777
2024	777
2025	583

Goodwill

	At December 31,	
	2018	2017
	(In thousands)	
Balance at beginning of year	\$ 22,353	\$ 22,770
Less purchase price adjustment	—	417
Balance at end of year ⁽¹⁾	<u>\$ 22,353</u>	<u>\$ 22,353</u>

(1) The balance is net of \$12.6 million of accumulated impairment losses.

Accrued and Other Current Liabilities

Accrued and other current liabilities consist of:

	At December 31,	
	2018	2017
	(In thousands)	
Customer rebates	\$ 6,163	\$ 5,648
Payroll, commissions, and bonuses	3,047	3,056
Accrued inventory purchases	5,140	4,796
Property taxes	1,041	943
Freight	689	318
Refund liability	435	—
Professional fees	415	448
Accrued interest	259	206
Other	2,043	1,408
Total	<u>\$ 19,232</u>	<u>\$ 16,823</u>

3. Impairment of Goodwill and Intangible Assets

The annual goodwill and indefinite-lived intangibles impairment test was performed as of October 1, 2018 for the Southern, Southwest and Vertex reporting units. This quantitative test indicated that goodwill was not impaired. The fair values of the reporting units were estimated using a discounted cash flow model (income approach) and a guideline public company method (market approach), giving 50% weight to each. The material assumptions used included cash flows based on future expected performance for the reporting units, weighted average costs of capital ranging from 11.5% to 15%, a long-term growth rate of 3% for the income approach and a control premium of 25.0% for the guideline public company method. The results of the test indicated that certain of the tradenames at Southwest were impaired. Accordingly, a charge of less than \$0.1 million was recorded for 2018.

During the second quarter of 2016 and prior to the annual impairment test of goodwill in October 2016, the Company concluded that impairment indicators existed at the Houston Wire & Cable (“HWC”) reporting unit, due to a decline in its overall financial performance, decrease in the market capitalization and overall market demand. There were no such impairment indicators for the Southern Wire reporting unit.

The Company performed step one of the impairment test and concluded that the fair value of the HWC reporting unit was less than its carrying value. Therefore, the Company performed step two of the impairment analysis. The step one test also indicated that one of the tradenames at Southern was impaired, and the Company recorded a non-cash charge of less than \$0.1 million against the tradenames during the quarter ended June 30, 2016.

Step two of the impairment analysis measured the goodwill impairment charge by allocating the HWC reporting unit’s fair value to all of the assets and liabilities of the reporting unit in a hypothetical analysis that calculated implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination and recording the deferred tax impact. Any excess of the carrying value of the reporting unit’s goodwill over the implied fair value of the reporting unit’s goodwill was recorded as an impairment loss.

The fair value of the HWC reporting unit was estimated using a discounted cash flow model (income approach) and a guideline public company method, giving 50% weight to each. The material assumptions used included a weighted average cost of capital of 11.0% and a long-term growth rate of 3-7% for the income approach and an adjusted invested capital multiple of 0.2 times revenue and a control premium of 10.0% for the guideline public company method. The carrying value of the HWC reporting unit’s goodwill was \$2.4 million and its implied fair value resulting from step two of the impairment test was zero. As a result, the Company recorded a non-cash goodwill impairment charge of \$2.4 million during the quarter ended June 30, 2016.

The fair value for goodwill and tradenames (indefinite-lived intangible assets) were both determined using a Level 3 measurement approach. The Level 3 value of all of the Company's tradenames at June 30, 2016 was \$4.5 million.

The Company is still anticipating significant growth in the businesses acquired in 2010 and in 2016. If this projected growth is not achieved and or there are future reductions in our market capitalization or market multiples, further goodwill and intangible assets impairments may result.

4. Debt

HWC Wire & Cable Company, the Company, Vertex, and Bank of America, N.A., as agent and lender, are parties to the Fourth Amended and Restated Loan and Security Agreement dated as of October 3, 2016 (the "Loan Agreement"). The Loan Agreement provides a \$100 million revolving credit facility and expires on September 30, 2020. Under certain circumstances the Company may request an increase in the commitment by an additional \$50 million.

Portions of the loan may be converted to LIBOR loans in minimum amounts of \$1.0 million and integral multiples of \$0.1 million. LIBOR loans bear interest at the British Bankers Association LIBOR Rate plus 100 to 150 basis points based on availability, and loans not converted to LIBOR loans bear interest at a fluctuating rate equal to the greatest of the agent's prime rate, the federal funds rate plus 50 basis points, or 30-day LIBOR plus 150 basis points. The unused commitment fee is 25 basis points.

Availability under the Loan Agreement is limited to a borrowing base equal to 85% of the value of eligible accounts receivable, plus the lesser of 70% of the value of eligible inventory or 90% of the net orderly liquidation value percentage of the value of eligible inventory, in each case less certain reserves. The Loan Agreement is secured by substantially all of the property of the Company, other than real estate.

The Loan Agreement includes, among other things, covenants that require the Company to maintain a specified minimum fixed charge coverage ratio, unless certain availability levels exist. Additionally, the Loan Agreement allows for the unlimited payment of dividends and repurchases of stock, subject to the absence of events of default and maintenance of a fixed charge coverage ratio and minimum level of availability. The Loan Agreement contains certain provisions that may cause the debt to be classified as a current liability, in accordance with GAAP, if availability falls below certain thresholds, even though the ultimate maturity date under the loan agreement remains as September 30, 2020. At December 31, 2018, the Company was in compliance with the availability-based covenants governing its indebtedness.

The carrying amount of long term debt approximates fair value as it bears interest at variable rates. The fair value is a Level 2 measurement as defined in ASC Topic 820, "Fair Value Measurement."

The Company's borrowings at December 31, 2018 and 2017 were \$71.3 million and \$73.6 million, respectively. The weighted average interest rates on outstanding borrowings were 4.1% and 3.2% at December 31, 2018 and 2017, respectively.

During 2018, the Company had an average available borrowing capacity of approximately \$24.0 million. This average was computed from the monthly borrowing base certificates prepared for the lender. At December 31, 2018, the Company had available borrowing capacity of \$28.7 million under the terms of the Loan Agreement. The Company paid \$0.1 million for each of the years ended December 31, 2018 and 2017 and \$0.2 million for the year ended December 31, 2016, for the unused facility.

Principal repayment obligations for succeeding fiscal years are as follows:

	(In thousands)
2019	\$ —
2020	71,316
Total	<u>\$ 71,316</u>

5. Income Taxes

On December 22, 2017, the United States enacted significant changes to the U.S. tax law following the passage and signing of H.R.1, "An Act to Provide the Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018" (previously known as "The Tax Cuts and Jobs Act"). In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update)." This ASU added the SEC guidance released on December 22, 2017 regarding the income tax accounting implication of the Tax Cuts and Jobs Act to ASC Topic 740. During 2017, the Company recorded income tax expense of \$0.3 million to reflect the reduction in the U.S. corporate income tax rate from 35% to 21%. As of December 31, 2018, the Company completed its analysis of its accounting for the income tax effects of tax reform and as a result no additional adjustments were recorded.

The provision (benefit) for income taxes consists of:

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Current:			
Federal	\$ 3,041	\$ 1,280	\$ (1,285)
State	658	159	(95)
Total current	<u>3,699</u>	<u>1,439</u>	<u>(1,380)</u>
Deferred:			
Federal	(1,246)	1,259	13
State	(98)	55	(7)
Total deferred	<u>(1,344)</u>	<u>1,314</u>	<u>6</u>
Total	<u>\$ 2,355</u>	<u>\$ 2,753</u>	<u>\$ (1,374)</u>

A reconciliation of the U.S. Federal statutory tax rate to the effective tax rate on income (loss) before taxes is as follows:

	Year Ended December 31,		
	2018	2017	2016
Federal statutory rate	21.0%	35.0%	35.0%
State taxes, net of federal benefit	4.3	4.2	1.7
Impairment, non-deductible portion	0.1	—	(6.6)
Share-based compensation	1.2	15.2	(9.0)
Non-deductible items	2.1	4.6	(3.9)
Valuation allowance	(9.5)	41.0	—
Tax reform rate change	—	12.9	—
Other	2.2	(4.1)	1.4
Total effective tax rate	<u>21.4%</u>	<u>108.8%</u>	<u>18.6%</u>

The share-based compensation resulted in incremental income tax expense, because the grant date fair value of share-based payments exceeded the actual tax deductions realized, either upon exercise or vesting or due to forfeitures. Any future net deficits arising from stock-based compensation transactions will result in incremental income tax expense, and will likely negatively impact the effective tax rate.

Significant components of the Company's deferred taxes were as follows:

	Year Ended December 31,	
	2018	2017
	(In thousands)	
Deferred tax assets:		
Uniform capitalization adjustment	\$ 1,469	\$ 1,272
Inventory valuation	1,179	1,334
Accounts receivable allowance	45	51
Stock compensation expense	681	725
Property and equipment	31	62
Other	548	134
Total deferred tax assets	<u>3,953</u>	<u>3,578</u>
Deferred tax liabilities		
Goodwill	649	460
Intangibles	2,315	2,385
Other	59	109
Total deferred tax liabilities	<u>3,023</u>	<u>2,954</u>
Less: Valuation allowance	—	1,038
Net deferred tax assets/(liabilities)	<u>\$ 930</u>	<u>\$ (414)</u>

A valuation allowance for deferred tax assets is recognized when it is more likely than not that some or all of the benefit from the deferred tax assets will not be realized. To assess that likelihood, the Company uses its current financial position, results of operations, both actual and forecasted, the reversal of deferred tax liabilities, and tax planning strategies, to determine whether a valuation allowance is required. The result of the Company's assessment is that it is more likely than not that the Company will generate sufficient taxable income to utilize the deferred tax assets. Therefore, the Company no longer requires a valuation allowance.

The Company does not have any unrecognized tax benefits recorded at December 2018, 2017 and 2016. The Company recognizes interest on any tax issue as a component of interest expense and any related penalties in other operating expenses. As of December 31, 2018, 2017 and 2016, the Company recorded no provision for interest or penalties related to uncertain tax positions. The tax years 2014 through 2018 remain open to examination by the major taxing jurisdictions to which the Company is subject.

6. Stockholders' Equity

On March 7, 2014, the Board of Directors adopted a stock repurchase program under which the Company is authorized to purchase up to \$25 million of its outstanding shares of common stock from time to time, depending on market conditions, trading activity, business conditions and other factors. Shares of stock purchased under the program are held as treasury shares and may be used to satisfy the exercise of options, issuance of restricted stock, to fund acquisitions or for other uses as authorized by the Board of Directors. In November 2016, the Board of Directors suspended purchases under the stock repurchase program. During 2016, the Company made repurchases under the stock repurchase program of 366,820 shares for a total cost of \$2.2 million.

Under the terms of the 2017 Stock Plan, the Company acquired 25,368 shares that were surrendered by the holders to pay withholding taxes in 2018. Under the terms of the 2006 Stock Plan, the Company acquired 27,156 shares that were surrendered by the holders to pay withholding taxes in 2017.

The Company paid a quarterly cash dividend from August 2007 until August 2016, resulting in aggregate dividends in 2016 of \$2.5 million.

The Company is authorized to issue 5,000,000 shares of preferred stock, par value \$.001 per share. The Board of Directors is authorized to fix the particular preferences, rights, qualifications and restrictions of each series of preferred stock. In connection with the adoption of a now terminated stockholder rights plan, the Board of Directors designated 100,000 shares as Series A Junior Participating Preferred Stock. No shares of preferred stock have been issued.

7. Retirement-related Benefits

Defined Contribution Plan

The Company maintains a combination profit-sharing plan and salary deferral plan for the benefit of its employees who are not covered by a collective bargaining agreement. Employees who are eligible to participate in the plan can contribute a percentage of their base compensation, up to the maximum percentage allowable not to exceed the limits of Internal Revenue Code Sections 401(k), 404, and 415, subject to the IRS-imposed dollar limit. Employee contributions are invested in certain equity and fixed-income securities, based on employee elections. The Company matches 100% of the first 1% of the employee's contribution. The Company's match for the years ended December 31, 2018, 2017 and 2016 was \$0.2 million for each year.

Defined Benefit Plan

The Company has a non-contributory defined benefit pension plan for those current and former employees of Vertex who are subject to a collective bargaining agreement. Currently, there are fifteen active employees, sixteen retired and six terminated employees covered by the plan. The benefit provisions to participants of the defined benefit plan are calculated based on the number of years of service and an annual negotiated plan benefit per year of service. Annual compensation (or future compensation increases) is not used in calculating the benefit or future plan contributions. It is the Company's policy to fund amounts for pensions sufficient to meet the minimum funding requirements set forth in applicable employee benefit laws, which currently approximate the benefit payments made each year. A total contribution of less than \$0.1 million was made during each of the years ended December 31, 2018, 2017 and 2016.

The current projected benefit obligation was \$1.1 million and \$1.0 million as of December 31, 2018 and 2017, respectively. The discount rate used to determine the projected benefit obligation was 4.18% and 3.77% in 2018 and 2017, respectively.

The Company's investment policy is to maximize the expected return for an acceptable level of risk. The expected long-term rate of return on plan assets, which was 5%, is based on a target allocation of assets with the goal of earning the highest rate of return while maintaining risk at acceptable levels. The target asset allocations for the defined benefit plan were 68% and 69% equity securities and 32% and 31% debt securities as of December 31, 2018 and 2017, respectively.

The fair value of the assets of the defined benefit plan were as follows:

	At December 31,	
	2018	2017
	(In thousands)	
Equity mutual funds	\$ 701	\$ 740
Fixed income – corporate bonds	326	326
Total fair value of assets	<u>\$ 1,027</u>	<u>\$ 1,066</u>

The plan assets are all classified as Level 1 and as such have readily observable prices and therefore a reliable fair market value.

The Company expects to contribute approximately \$0.1 million to the defined benefit plan in 2019 and expects the annual benefit payments to be approximately \$0.1 million per year.

8. Incentive Plans

On August 4, 2017, the Board of Directors approved the Houston Wire & Cable Company 2017 Stock Plan (the "2017 Plan"). The 2017 Plan was approved by the stockholders at the 2018 Annual Meeting on May 8, 2018. The 2017 Plan provides for discretionary grants of stock options, stock awards, stock units and stock appreciation rights (SARs) to employees and directors up to a total of 1,000,000 shares. Shares issuable under the 2017 Plan may be authorized but unissued shares or treasury shares. If any award granted under the 2017 Plan expires, terminates or is forfeited or cancelled for any reason, the shares subject to the award will again be available for issuance. Any shares subject to an award that are delivered to the Company or withheld by the Company on behalf of a participant as payment for the award (including the exercise price of a stock option or SAR) or as payment for any withholding taxes due in connection with the award, or that are purchased by the Company with proceeds received from a stock option exercise, will not again be available for issuance. The 2017 Plan's purpose is to attract and retain outstanding individuals as employees and directors of the Company and its subsidiaries and to provide them with additional incentive to expand and improve the Company's profits by giving them the opportunity to acquire or increase their proprietary interest in the Company.

The 2017 Plan succeeded the Company's 2006 Stock Plan (the "2006 Plan"), which expired on May 1, 2017. The types of equity awards previously authorized under the 2006 Plan did not significantly differ from those permitted under the 2017 Plan.

Stock Option Awards

The Company has granted options to purchase its common stock to employees and directors of the Company under the 2006 Plan at no less than the fair market value of the underlying stock on the date of grant. These options are granted for a term not exceeding ten years and may be forfeited in the event the employee or director terminates his or her employment or relationship with the Company. Options granted to employees generally vest over three to five years, and options granted to directors generally vest one year after the date of grant. Shares issued to satisfy the exercise of options may be newly issued shares or treasury shares. The plan contains anti-dilutive provisions that permit an adjustment of the number of shares of the Company's common stock represented by each option for any change in capitalization. Compensation cost for options granted is charged to expense on a straight line basis over the term of the option.

The fair value of each option awarded is estimated on the date of grant using a Black-Scholes option-pricing model. Expected volatilities are based on historical volatility of the Company's stock and other factors. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. There were no options granted in 2018, 2017 or 2016.

All granted stock options have vested, with the last grant having an expiration date of December 20, 2021. The following summarizes stock option activity and related information:

	2018			
	Options (in 000's)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (in years)
Outstanding-Beginning of year	223	\$ 13.10	\$ —	2.84
Granted	—	—		
Exercised	—	—		
Forfeited	(30)	11.17		
Expired	(39)	13.42		
Outstanding-End of year	<u>154</u>	13.40	\$ —	2.52
Exercisable-End of year	<u>154</u>	13.40	\$ —	2.52

There was no excess tax benefit for the years ended December 31, 2018, 2017 and 2016.

There were no options exercised in the years ended December 31, 2018, 2017 and 2016. There is no intrinsic value of options outstanding and exercisable as of December 31, 2018 as the closing stock price at the end of 2018 creates a negative intrinsic value.

The total grant-date fair value of options vested during 2018 was \$0, as all the options vested as of December 31, 2017. The total grant-date fair value of options vested during the years ended December 31, 2017 and 2016 was \$0.2 million and \$0.3 million, respectively.

Restricted Stock Awards, Restricted Stock Units and Cash Awards

As a result of the approval of the 2017 Plan by the stockholders at the 2018 Annual Meeting, all cash/liability awards granted prior to stockholder approval of the 2017 Plan were reclassified to restricted stock units (equity) effective May 8, 2018. The total liability reclassified to additional paid-in-capital was \$0.4 million. This modification resulted in an increase in total fair value of \$0.1 million, recognized over the terms of the grants, which range from 1 to 5 years.

On December 4, 2018, the Board of Directors granted to the Company's President and CEO 48,387 voting shares of restricted stock and to the CFO, 12,097 voting shares of restricted stock under the 2017 Plan. The shares vest in one-third increments on the first, second and third anniversaries of the date of grant, in each case as long as the recipient is then employed by the Company. Any dividends declared will be accrued and paid if and when the related shares or units vest.

The Board of Directors also granted 44,357 voting shares of restricted stock under the 2017 Plan to members of management on December 4, 2018. The shares vest in one-third increments on the third, fourth and fifth anniversaries of the date of grant, in each case as long as the recipient is then employed by the Company. Any dividends declared will be accrued and paid if and when the related shares or units vest.

On November 6, 2018 and June 1, 2018, the Company awarded restricted stock units with a grant date value of \$30,000 and \$55,000 for a total of 4,950 and 6,667 restricted stock units, respectively, to its newly appointed non-employee directors. These awards of restricted stock units vest at the date of the 2019 Annual Meeting of Stockholders. Each grant entitles the non-employee director to receive a number of shares of the Company's common stock equal to the number of vested restricted stock units, together with dividend equivalents from the date of grant, at such time as the director's service on the board terminates for any reason.

Following the Annual Meeting of Stockholders on May 8, 2018, the Company approved the award of restricted stock units with a grant date value of \$60,000 to each non-employee director who was re-elected, for an aggregate of 31,372 restricted stock units. Each award of restricted stock units vests at the date of the 2019 Annual Meeting of Stockholders. Each non-employee director is entitled to receive a number of shares of the Company's common stock equal to the number of vested restricted stock units, together with dividend equivalents from the date of grant, at such time as the director's service on the board terminates for any reason.

Also on May 8, 2018, the Company granted 28,144 voting shares of restricted stock to new members of the management team. Of the 28,144 shares granted, 26,144 shares vest in one third increments on the first, second and third anniversaries of the date of grant and the remaining 2,000 shares vest in one third increments on the third, fourth and fifth anniversaries of the date of grant, in each case as long as the recipient is then employed by the Company. Any dividends declared will be accrued and paid if and when the related shares vest.

Restricted common shares and restricted stock units are measured at fair value on the date of grant based on the quoted price of the common stock. Such value is recognized as compensation expense over the corresponding vesting period which ranges from one to five years, based on the number of awards that vest.

The following summarizes restricted stock activity for the year ended December 31, 2018:

	2018			
	Shares		Units	
	Shares (in 000's)	Weighted Average Market Value at Grant Date	Shares (in 000's)	Weighted Average Market Value at Grant Date
Non-vested -Beginning of year	238	\$ 7.33	40	\$ 7.50
Granted	133	6.51	43	7.47
Vested	(99)	7.61	(60)	7.65
Cancelled/Forfeited	(13)	7.63	(5)	7.65
Expired	—	—	—	—
Cash awards converted to equity	—	—	197	7.65
Non-vested -End of year	<u>259</u>	<u>\$ 6.78</u>	<u>215</u>	<u>\$ 7.59</u>

Total stock-based compensation cost was \$1.3 million for the year ended December 31, 2018, \$1.2 million for the year ended December 31, 2017, of which \$1.0 million was for equity awards and \$0.2 million was for liability awards, and \$0.9 million for the year ended December 31, 2016. Total income tax benefit recognized for equity awards stock-based compensation arrangements was \$0.2 million for each of the years ended December 31, 2018 and 2017 and \$0.3 million for the year ended December 31, 2016.

As of December 31, 2018, there was \$2.0 million of total unrecognized compensation cost related to non-vested, stock-based compensation arrangements. The cost is expected to be recognized over a weighted average period of approximately 29 months. There are 627,283 shares available for future grants under the 2017 Plan at December 31, 2018.

9. Commitments and Contingencies

The Company has entered into operating leases, primarily for distribution centers and office facilities. These operating leases frequently include renewal options at the fair rental value at the time of renewal. For leases with step rent provisions, whereby the rental payments increase incrementally over the life of the lease, the Company recognizes the total minimum lease payments on a straight line basis over the minimum lease term. Facility rent expense was approximately \$3.7 million in 2018, \$3.5 million in 2017 and \$2.6 million in 2016.

Future minimum lease payments under non-cancelable operating leases with initial terms of one year or more consisted of the following at December 31, 2018:

	(In thousands)
2019	\$ 3,868
2020	3,026
2021	2,698
2022	2,550
2023	1,410
Thereafter	1,575
Total minimum lease payments	<u>\$ 15,127</u>

The Company had aggregate purchase commitments for fixed inventory quantities of approximately \$54.5 million at December 31, 2018.

As a result of unfavorable lease terms relative to market for one of the leases acquired as part of the Vertex acquisition in 2016, there is a remaining additional liability of \$0.2 million that is being amortized over the remaining term of the lease, which was 54 months at December 31, 2018.

The Company, along with many other defendants, has been named in a number of lawsuits in the state courts of Minnesota, North Dakota, and South Dakota alleging that certain wire and cable which may have contained asbestos caused injury to the plaintiffs who were exposed to this wire and cable. These lawsuits are individual personal injury suits that seek unspecified amounts of money damages as the sole remedy. It is not clear whether the alleged injuries occurred as a result of the wire and cable in question or whether the Company, in fact, distributed the wire and cable alleged to have caused any injuries. The Company maintains general liability insurance that, to date, has covered the defense of and all costs associated with these claims. In addition, the Company did not manufacture any of the wire and cable at issue, and the Company would rely on any warranties from the manufacturers of such cable if it were determined that any of the wire or cable that the Company distributed contained asbestos which caused injury to any of these plaintiffs. In connection with ALLTEL's sale of the Company in 1997, ALLTEL provided indemnities with respect to costs and damages associated with these claims that the Company believes it could enforce if its insurance coverage proves inadequate.

There are no legal proceedings pending against or involving the Company that, in management's opinion, based on the current known facts and circumstances, are expected to have a material adverse effect on the Company's consolidated financial position, cash flows, or results from operations.

10. Subsequent Events

On March 12, 2019, the Company, as guarantor, HWC Wire & Cable Company and Vertex, as borrowers, and Bank of America, N.A., as lender and agent entered into a Second Amendment to Fourth Amended and Restated Loan and Security Agreement, extending the expiration date of the Company's \$100 million revolving credit facility until March 12, 2024, substantially, on the same terms as currently in effect.

11. Select Quarterly Financial Data (unaudited)

The following table presents the Company's unaudited quarterly results of operations for each of the last eight quarters in the period ended December 31, 2018. The unaudited information has been prepared on the same basis as the audited consolidated financial statements.

	Year Ended December 31, 2018			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)			
Sales	\$ 87,906	\$ 90,074	\$ 93,852	\$ 85,026
Gross profit	\$ 20,979	\$ 21,393	\$ 22,347	\$ 20,489
Operating income	\$ 3,190	\$ 3,046	\$ 4,392	\$ 3,270
Net income	\$ 1,628	\$ 2,455	\$ 2,606	\$ 1,947
Earnings per share:				
Basic	\$ 0.10	\$ 0.15	\$ 0.16	\$ 0.12 ⁽¹⁾
Diluted	\$ 0.10	\$ 0.15	\$ 0.16	\$ 0.12 ⁽¹⁾

	Year Ended December 31, 2017			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)			
Sales	\$ 82,146	\$ 81,196	\$ 75,646	\$ 78,709
Gross profit	\$ 20,843	\$ 18,570	\$ 16,318	\$ 16,931
Operating income (loss)	\$ 2,969	\$ 2,047	\$ (162)	\$ (250)
Net income (loss)	\$ 1,996	\$ (1,711)	\$ (54)	\$ (453)
Earnings (loss) per share:				
Basic	\$ 0.12 ⁽¹⁾	\$ (0.11)	\$ (0.00)	\$ (0.03)
Diluted	\$ 0.12 ⁽¹⁾	\$ (0.11)	\$ (0.00)	\$ (0.03)

(1) The "two-class" method was used to calculate earnings per share which resulted in the same value.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15a-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Design and Evaluation of Internal Control over Financial Reporting

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we included a report of management's assessment of the design and effectiveness of our internal controls as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2018. Ernst & Young, LLP, our independent registered public accounting firm, also attested to our internal control over financial reporting. Management's report and the independent registered accounting firm's attestation report are included on pages 24 and 25 under the captions entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting."

There has been no change in our internal controls over financial reporting that occurred during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company has assessed the effectiveness of its internal control over financial reporting as of December 31, 2018 based on criteria established by *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (2013 framework) ("COSO Framework"). The Company's management is responsible for establishing and maintaining adequate internal controls over financial reporting. The Company's independent registered public accountants that audited the Company's financial statements as of December 31, 2018 have issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting, which appears on page 25.

Internal control over financial reporting is a process designed 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. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's assessment of the effectiveness of its internal control over financial reporting included testing and evaluating the design and operating effectiveness of its internal controls. In management's opinion, the Company has maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in the COSO Framework.

/s/ James L. Pokluda III

James L. Pokluda III

President and Chief Executive Officer

/s/ Christopher M. Micklas

Christopher M. Micklas

Chief Financial Officer, Treasurer
and Secretary (Chief Accounting Officer)

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Houston Wire & Cable Company

Opinion on Internal Control over Financial Reporting

We have audited Houston Wire & Cable Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Houston Wire & Cable Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated March 15, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Houston, Texas
March 15, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by Item 10 relating to directors and nominees for election to the Board of Directors is incorporated herein by reference to the “Election of Directors” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019. The information called for by Item 10 relating to executive officers and certain significant employees is set forth in Part I of this Annual Report on Form 10-K.

The information called for by Item 10 relating to disclosure of delinquent Form 3, 4 or 5 filers is incorporated herein by reference to the “General - Section 16 (a) Beneficial Ownership Reporting Compliance” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

The information called for by Item 10 relating to the code of ethics is incorporated herein by reference to the “Corporate Governance and Board Committees - Code of Business Conduct” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

The information called for by Item 10 relating to the procedures by which security holders may recommend nominees to the Board of Directors is incorporated herein by reference to the “Corporate Governance and Board Committees - Stockholder Recommendations for Director Nominations” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

The information called for by Item 10 relating to the audit committee and the audit committee financial expert is incorporated herein by reference to the “Corporate Governance and Board Committees - Committees Established by the Board of Directors - Audit Committee” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated herein by reference to the “Executive Compensation” and “Director Compensation” sections of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by Item 12 is incorporated herein by reference to the “Stock Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” sections of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by Item 13 is incorporated herein by reference to the “Corporate Governance and Board Committees - Director Independence” and “Related Person Transaction Policy” sections of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by Item 14 is incorporated herein by reference to the “Principal Independent Accounting Fees and Services” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 7, 2019.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following financial statements of our Company and Report of the Independent Registered Public Accounting Firm are included in Part II:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2018 and 2017
- Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016
- Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016
- Notes to Consolidated Financial Statements

(b) Financial Statement Schedules:

Financial statement schedules have been omitted because they are either not applicable or the required information has been disclosed in the financial statements or notes thereto.

(c) Exhibits

Exhibits are set forth on the attached exhibit index

ITEM 16. FORM 10-K SUMMARY

Not applicable

INDEX TO EXHIBITS

EXHIBIT NUMBER	EXHIBIT
3.1	Amended and Restated Certificate of Incorporation of Houston Wire & Cable Company (incorporated herein by reference to Exhibit 3.1 to Houston Wire & Cable Company's Registration Statement on Form S-1 (Registration No. 333-132703))
3.2	Amended and Restated By-Laws of Houston Wire & Cable Company (incorporated herein by reference to Exhibit 3.2 to Houston Wire & Cable Company's Registration Current Report on Form 8-K filed May 11, 2012)
10.1*	Houston Wire & Cable Company 2006 Stock Plan, as amended and restated effective March 1, 2015, as amended (incorporated herein by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed March 13, 2015 and Exhibit 10.12 to Houston Wire & Cable Company's Annual Report on Form 10-K for the year ended December 31, 2016)
10.2*	Amended and Restated Executive Employment Agreement dated as of January 1, 2015 between James L. Pokluda, III and Houston Wire & Cable Company (incorporated by reference to Exhibit 10.3 to Houston Wire & Cable Company's Annual Report on Form 10-K for the year ended December 31, 2014)
10.3*	Form of Employee Non-Qualified Stock Option Agreement under Houston Wire & Cable Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.4 to Houston Wire & Cable Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015)
10.4*	Form of Director Non-Qualified Stock Option Agreement under Houston Wire & Cable Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.2 to Houston Wire & Cable Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015)
10.5*	Form of Stock Award Agreement for Key Employees under Houston Wire & Cable Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.3 to Houston Wire & Cable Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015)
10.6*	Form of Restricted Stock Unit Award Agreement for Non-Employee Directors under Houston Wire & Cable Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.1 to Houston Wire & Cable Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015)
10.7*	Form of Performance Stock Unit Award Agreement under Houston Wire & Cable Company's 2006 Stock Plan (incorporated herein by reference to Exhibit 10.7 to Houston Wire & Cable Company's Annual Report on Form 10-K for the year ended December 31, 2016)
10.8*	Description of Senior Management Bonus Program (incorporated herein by reference to Exhibit 10.7 to Houston Wire & Cable Company's Annual Report on Form 10-K for the year ended December 31, 2015)
10.9*	Form of Director/Officer Indemnification Agreement by and between Houston Wire & Cable Company and a director, member of a committee of the Board of Directors or officer of Houston Wire & Cable Company (incorporated herein by reference to Exhibit 10.24 to Houston Wire & Cable Company's Annual Report on Form 10-K for the year ended December 31, 2006)
10.10	Fourth Amended and Restated Loan and Security Agreement, dated as of October 1, 2015, as amended, among HWC Wire & Cable Company, as borrower, Houston Wire & Cable Company, as Guarantor, certain financial institutions, as lenders, and Bank of America, N.A., as agent (incorporated herein by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed October 2, 2015 and Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed October 5, 2016)

- 10.11 Third Amended and Restated Guaranty dated as of October 1, 2015, by Houston Wire & Cable Company, as guarantor, in favor of Bank of America, N.A., as agent (incorporated herein by reference to Exhibit 10.2 to Houston Wire & Cable Company's Current Report on Form 8-K filed October 2, 2015)
- 10.12* Houston Wire & Cable Company 2017 Stock Plan (incorporated herein by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed August 8, 2017)
- 10.13* Form of Restricted Stock Unit Award Agreement for Non-Employee Directors (incorporated herein by reference to Exhibit 10.2 to Houston Wire & Cable Company's Current Report on Form 8-K filed August 8, 2017)
- 10.14* Form of Restricted Stock Unit Award Agreement for Key Employees (incorporated herein by reference to Exhibit 10.3 to Houston Wire & Cable Company's Current Report on Form 8-K filed August 8, 2017)
- 10.15* Form of Stock Appreciation Agreement (incorporated herein by reference to Exhibit 10.4 to Houston Wire & Cable Company's Current Report on Form 8-K filed August 8, 2017)
- 10.16* Form of Stock Award Agreement for Key Employees (incorporated by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed May 14, 2018)
- 10.17* Retirement and Consulting Agreement dated April 17, 2018 between Houston Wire & Cable Company and Nicol G. Graham. (incorporated by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed April 27, 2018)
- 10.18* Letter Agreement dated April 5, 2018 between Houston Wire & Cable Company and Christopher M. Micklas (incorporated by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed April 13, 2018)
- 10.19* Houston Wire & Cable Company Nonemployee Directors' Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed December 14, 2017)
- 21.1 Subsidiaries of Houston Wire & Cable Company **
- 23.1 Consent of Ernst & Young, LLP **
- 31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **
- 31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 **
- 32.1 Certifications of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 **

* Management contract or compensatory plan or arrangement

** Filed herewith

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-224026) pertaining to the Houston Wire & Cable Company 2017 Stock Plan of our reports dated March 15, 2019, with respect to the consolidated financial statements of Houston Wire & Cable Company, and the effectiveness of internal control over financial reporting of Houston Wire & Cable Company, included in this Annual Report (Form 10-K) for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Houston, Texas
March 15, 2019

Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James L. Pokluda III, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2018 of Houston Wire & Cable Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2019

/s/ James L. Pokluda III
James L. Pokluda III
Chief Executive Officer

Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Christopher M. Micklas, certify that:

1. I have reviewed this annual report on Form 10-K for the year ended December 31, 2018 of Houston Wire & Cable Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2019

/s/ Christopher M. Micklas

Christopher M. Micklas
Chief Financial Officer

**Certifications of CEO and CFO Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Houston Wire & Cable Company (the “Corporation”) on Form 10-K for the fiscal year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), James L. Pohluda III, as Chief Executive Officer of the Corporation, and Christopher M. Micklas, as Chief Financial Officer of the Corporation, each hereby certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, to the best of their knowledge, that:

- (1) 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 Corporation.

Date: March 15, 2019

/s/ James L. Pohluda III

James L. Pohluda III
Chief Executive Officer

Date: March 15, 2019

/s/ Christopher M. Micklas

Christopher M. Micklas
Chief Financial Officer

This certification accompanies the Report pursuant to section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by Houston Wire & Cable Company for purposes of section 18 of the Securities Exchange Act of 1934, as amended.

CORPORATE HEADQUARTERS

Houston Wire & Cable Company
10201 North Loop East
Houston, Texas 77029-1415
Telephone (713) 609-2100

ANNUAL MEETING

The Annual Meeting of Shareholders will be held May 7, 2019, at 8:30 a.m. CDT, at the Company's corporate headquarters in Houston, Texas.

COMMON STOCK LISTING

Ticker Symbol: HWCC
Nasdaq Stock Exchange

TRANSFER AGENT

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

INDEPENDENT AUDITORS

Ernst & Young, LLP
1401 McKinney Street, Suite 1200
Houston, Texas 77010

LEGAL COUNSEL

Schiff Hardin, LLP
233 South Wacker Drive
6600 Willis Tower
Chicago, Illinois 60606

INVESTOR RELATIONS

A complimentary copy of this report can be found online at www.houwire.com or by sending a written request to our corporate headquarters address, calling (713) 609-2227 or contacting: investor.relations@houwire.com

DIRECTORS**James L. Pokluda III**

President & Chief Executive Officer of Houston Wire & Cable Company

G. Gary Yetman

Former Chief Executive Officer & President of Coleman Cable, Inc.

Michael T. Campbell

Independent Director

Roy W. Haley

Former Chairman of the Board of WESCO International, Inc.

Robert "Bob" Reymond

President of the Oil, Gas and Chemical Division & a Director of Burns & McDonnell

Sandford "Sandy" Rothe

Former Partner of Deloitte LLP

William H. Sheffield

Chairman of the Board of Houston Wire & Cable Company

WEBSITE

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