

# HWC

HOUSTON WIRE & CABLE



# FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)	2019	2018	2017	2016*	2015**
Net Sales	\$ 338,286	\$ 356,858	\$ 317,697	\$ 261,644	\$ 308,133
Sales Per Employee	783	840	782	733	856
Operating Income (loss)	6,882	13,898	4,604	(3,290)	9,435
Operating Margin	2.00%	3.89%	1.45%	(1.26)%	3.06%
Net Income (loss)	2,550	8,636	(222)	(3,308)	5,171
Diluted Earnings (loss) Per Share	0.15	0.52	(0.01)	(0.21)	0.30
Total Assets	240,148	203,057	194,039	175,870	159,113
Long-term Obligations	96,659	71,894	74,995	60,904	39,463
Stockholders' Equity	103,628	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.

## Dear Fellow Shareholders:

Over the past several weeks all of our lives have changed, and today we are operating in a business environment that has been fundamentally altered due to the Coronavirus (COVID-19) pandemic. These are certainly unprecedented times; however, governments, business communities, and families are leading, adjusting, and persevering in unique and well-intended ways. For that I am grateful. Despite existing near-term challenges, our optimism for Houston Wire & Cable Company's ability to execute in the present environment, including maintaining our superior levels of customer service, remains intact.

### Current Operating Environment

Execution of our COVID-19 Preparedness and Business Continuity Plan has enabled all business units including Houston Wire & Cable, Southwest Wire Rope, Southern Wire, and Vertex to remain 100% operational. The products we supply are critical elements of the industrial, commercial, and disaster recovery supply chain, and all reporting units are considered "Essential Businesses". We supply electrical wire and cable used in a myriad of industrial and commercial applications; steel wire rope and slings used in construction, agriculture and public works projects; and fasteners that are used extensively in manufacturing, agriculture, power generation, and healthcare. Our nation is reliant on these products for countless applications that enable daily commerce and civil and economic recovery.

The operating environment is changing daily, pricing pressure has increased, and customer demand varies by regional geography. It is difficult to predict when the economy will return to pre-COVID-19 levels, therefore, prudent management of working capital and supply chain is a top priority.

### Supply Chain

We have a diverse network of domestic and international suppliers. When trade negotiations between the United States and China hit a standstill, the resulting tariffs impacted a portion of the products that we distribute. Although the majority of our products were not affected, we experienced supply disruptions for fasteners and some electrical products. We also experienced price increases as a result of the tariffs, which pressured margins. Where we could, we renegotiated existing supply agreements, and where that was not possible we transitioned to new suppliers. We were disciplined with our pricing and estimate minimal margin erosion during the transition period. Today we are well positioned with a superior mix of reliable, worldclass, high quality suppliers to service current market demand and future economic recovery.

### Debt Reduction

We enjoy a strong relationship with our lender and in 2019 we extended the term of our asset-based credit facility to 2024 and increased the borrowing capacity to \$115 million. Our credit facility provides our company with the funds needed for successful operations. Our business model is counter cyclical and generates positive cash flow in periods of decline. In addition, for 2020, we have aggressive plans in place that are focused on debt reduction and strengthening the balance sheet through comprehensive working capital management and expense reduction.

We look forward to updating you on our progress with these plans in our quarterly communications.

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  
President, CEO and Director



**HWC**



**HOUSTON WIRE & CABLE COMPANY**  
**FORM 10-K 2019**



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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2019

or

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

For the transition period from to

Commission File Number: 000-52046



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:

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common stock, par value \$0.001 per share	HWCC	The Nasdaq Stock Market

Securities registered pursuant to Section 12(b) 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 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 such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition 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, 2019 was \$83,886,290.

At March 1, 2020, there were 16,556,950 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 5, 2020.

**HOUSTON WIRE & CABLE COMPANY**  
**Form 10-K**  
**For the Fiscal Year Ended December 31, 2019**

**INDEX**

PART I.		2
Item 1.	Business	2
Item 1A.	Risk Factors	4
Item 1B.	Unresolved Staff Comments	7
Item 2.	Properties	7
Item 3.	Legal Proceedings	7
Item 4.	Mine Safety Disclosures	7
	Supplemental Item. Executive Officers of the Registrant	7
PART II.		8
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	8
Item 6.	Selected Financial Data	9
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	18
Item 8.	Consolidated Financial Statements and Supplementary Data	19
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	20
Item 9A.	Controls and Procedures	21
Item 9B.	Other Information	23
PART III.		23
Item 10.	Directors, Executive Officers and Corporate Governance	23
Item 11.	Executive Compensation	23
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	23
Item 13.	Certain Relationships and Related Transactions, and Director Independence	23
Item 14.	Principal Accounting Fees and Services	23
PART IV.		24
Item 15.	Exhibits and Financial Statement Schedules	24
Item 16.	Form 10-K Summary	24

## 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. In 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**

Our national distribution presence and value-added services make us an essential partner in the supply chain for our suppliers, customers and end users. We have successfully expanded our business from the original location in Houston, Texas to 22 locations nationwide, which includes four 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 2019, we served over 10,000 customers, shipping approximately 44,000 SKUs to approximately 14,500 customer locations nationwide. No customer represented 10% or more of our 2019 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 2019, approximately 51% 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 2019 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, 2019, we had 432 employees. Our sales and marketing staff accounted for 201 employees, including 30 field sales personnel and 127 inside sales and technical support personnel. We believe that our employee relations are good.

### **Website Access**

We maintain an internet website at [www.houwire.com](http://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 cyclical 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 2019, our ten largest customers accounted for approximately 37% 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 2019, we sourced products from approximately 376 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 2019 approximately 51% 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. Pokluda 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, as well as the increasing trend of our suppliers to sell direct to our customer and industry consolidation, 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 2019 and 2018 and goodwill in 2015, and the Southern reporting unit had an impairment of intangibles in 2013 and 2016. 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 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.

***We may be adversely affected by the potential discontinuation of LIBOR.***

In July 2017, the Financial Conduct Authority in the United Kingdom, which regulates LIBOR, publicly announced that it will no longer compel or persuade banks to make LIBOR submissions after 2021. This announcement is expected to effectively end LIBOR rates beginning in 2022, and, while other alternatives have been proposed, it is unclear which, if any, alternative to LIBOR will be available and widely accepted in major financial markets.

Our loan agreement permits both base rate borrowings and LIBOR borrowings. If an alternative to LIBOR is not available and widely accepted after 2021, our ability to borrow at an alternative to the base rate under our loan agreement may be adversely impacted, and the costs associated with any potential future borrowings may increase.

***Epidemics and other events outside our control, and our inability to successfully mitigate the effects of such events, may harm our business.***

All of our facilities are subject to natural or man-made disasters such as floods, fires, acts of terrorism, failures of utilities and epidemics or pandemics such as the coronavirus COVID-19. If such an event were to occur, our business could be harmed due to the event or our inability to successfully mitigate the effects of the particular event. Potential harms include the loss of business continuity, the loss of business data and damage to infrastructure.

Our production and supply chains could be severely affected if our employees or the regions in which our facilities or suppliers are located are affected by a significant outbreak of any disease, epidemic or pandemic. For example, a facility could be closed by government authorities for a sustained period of time, some or all of our workforce could be unavailable due to quarantine, fear of catching the disease or other factors, and local, national or international transportation or other infrastructure could be affected, leading to delays or loss of production. In addition, our suppliers and customers are subject to similar risks, which could lead to a shortage of inventory or components, or a reduction in our customers' demand for our products.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

### *Facilities*

We operate out of twenty-two distribution centers strategically located throughout the United States with approximately 922,000 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 four locations operated by 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.

## 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	55	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	52	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 31, 2020, there were 1,498 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 and reactivated in August 2019. At December 31, 2019, there was \$8.1 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, 2019, 2018 and 2017, and the consolidated balance sheet data at December 31, 2019 and 2018, 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, 2016 and 2015, and the consolidated balance sheet data at December 31, 2017, 2016 and 2015 from our audited financial statements, which are not included in this Form 10-K.

	Year Ended December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except share data)				
<b>CONSOLIDATED STATEMENT OF OPERATIONS DATA:</b>					
Sales	\$ 338,286	\$ 356,858	\$ 317,697	\$ 261,644	\$ 308,133
Cost of sales	<u>258,364</u>	<u>271,650</u>	<u>245,035</u>	<u>208,694</u>	<u>242,223</u>
Gross profit	79,922	85,208	72,662	52,950	65,910
Operating expenses:					
Salaries and commissions	37,180	38,110	36,570	29,369	28,537
Other operating expenses	33,238	30,962	28,716	24,714	25,023
Depreciation and amortization	2,502	2,178	2,772	3,018	2,915
Impairment charge	<u>120</u>	<u>60</u>	<u>—</u>	<u>2,384</u>	<u>3,417</u>
Total operating expenses	<u>73,040</u>	<u>71,310</u>	<u>68,058</u>	<u>59,485</u>	<u>59,892</u>
Operating income (loss)	6,882	13,898	4,604	(6,535)	6,018
Interest expense	<u>3,057</u>	<u>2,907</u>	<u>2,073</u>	<u>845</u>	<u>901</u>
Income (loss) before income taxes	3,825	10,991	2,531	(7,380)	5,117
Income tax expense (benefit)	<u>1,275</u>	<u>2,355</u>	<u>2,753</u>	<u>(1,374)</u>	<u>3,073</u>
Net income (loss)	<u>\$ 2,550</u>	<u>\$ 8,636</u>	<u>\$ (222)</u>	<u>\$ (6,006)</u>	<u>\$ 2,044</u>
Earnings (loss) per share:					
Basic	<u>\$ 0.16</u>	<u>\$ 0.53</u>	<u>\$ (0.01)</u>	<u>\$ (0.37)</u>	<u>\$ 0.12</u>
Diluted	<u>\$ 0.15</u>	<u>\$ 0.52</u>	<u>\$ (0.01)</u>	<u>\$ (0.37)</u>	<u>\$ 0.12</u>
Weighted average common shares outstanding:					
Basic	<u>16,433,644</u>	<u>16,389,876</u>	<u>16,269,611</u>	<u>16,345,679</u>	<u>17,012,560</u>
Diluted	<u>16,552,866</u>	<u>16,523,599</u>	<u>16,269,611</u>	<u>16,345,679</u>	<u>17,067,593</u>

	As of December 31,				
	2019	2018	2017	2016	2015
	(Dollars in thousands)				
<b>CONSOLIDATED BALANCE SHEET DATA:</b>					
Cash and cash equivalents	\$ 4,096	\$ 1,393	\$ —	\$ —	\$ —
Accounts receivable, net	\$ 56,965	\$ 59,793	\$ 57,396	\$ 44,677	\$ 46,250
Inventories, net	\$ 114,069	\$ 94,325	\$ 88,115	\$ 79,783	\$ 75,777
Total assets	\$ 240,148	\$ 203,057	\$ 194,039	\$ 175,870	\$ 159,113
Book overdraft <sup>(1)</sup>	\$ —	\$ —	\$ 3,028	\$ 3,181	\$ 3,701
Total debt	\$ 83,500	\$ 71,316	\$ 73,555	\$ 60,388	\$ 39,188
Stockholders' equity	\$ 103,628	\$ 100,678	\$ 90,744	\$ 90,131	\$ 100,001

(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 44 years ago, we have grown to be a large provider of industrial products to the U.S. market. Today, we serve over 10,000 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<sup>TM</sup>. 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.

#### *Inventory Reserves*

Inventories are valued at the lower of cost, using the average cost method, or 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. At December 31, 2019 and 2018, inventory reserves totaled \$3.6 million and \$3.7 million, respectively. A 20% change in our inventory reserve estimate at December 31, 2019 would have resulted in a change in income before income taxes of \$0.7 million.

#### *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, 2019, our goodwill balance was \$22.4 million, representing 9.3% of our total assets.

We conduct impairment testing for goodwill annually in the fourth quarter of our 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.



We test 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. We have determined that we have four reporting units for this purpose. Before testing goodwill, we consider 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.

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. We 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 is 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.

#### *Intangible Assets*

Our intangible assets, excluding goodwill, represent tradenames and customer relationships acquired in purchase transactions. At December 31, 2019, our intangible asset balance was \$10.3 million, representing 4.3% of our total assets. Tradenames are not being amortized and are treated as indefinite-lived assets. Tradenames are tested for recoverability in the fourth quarter of our fiscal year, and more frequently, on an interim basis, when an event occurs or circumstances change that indicate that the fair value may have declined below its carrying value. We consider 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 an intangible asset is less than its carrying amount. 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 perform a quantitative test and, if required, record an impairment for the difference in the discounted cash flows and the carrying value. The results of the annual qualitative test for 2019 indicated that certain of the tradenames at Southwest were impaired. Accordingly, we performed a quantitative test on Southwest which resulted in an impairment charge of \$0.1 million in 2019.

We assign useful lives to our intangible assets based on the periods over which we expect the assets to contribute directly or indirectly to our future cash flows. Customer relationships are amortized over 6 to 9 year useful lives. If events or circumstances were to indicate that any of our definite-lived intangible assets might be impaired, we 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 under the relief from royalty method, 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.

#### *Income Taxes*

We determine 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 measure them 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 was signed into law, making significant changes to the US Internal Revenue Code. In 2018, we completed our analysis of our 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. We establish 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, we consider 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 our deferred tax assets, we place 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. We have 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.

We establish 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. We recognize 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 finance 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, 2019, 2018 and 2017.

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,		
	2019	2018	2017
Sales	100.0%	100.0%	100.0%
Cost of sales	76.4%	76.1%	77.1%
Gross profit	23.6%	23.9%	22.9%
Operating expenses:			
Salaries and commissions	11.0%	10.7%	11.5%
Other operating expenses	9.8%	8.7%	9.0%
Depreciation and amortization	0.7%	0.6%	0.9%
Impairment charge	n/m	n/m	0.0%
Total operating expenses	21.6%	20.0%	21.4%
Operating income	2.0%	3.9%	1.4%
Interest expense	0.9%	0.8%	0.7%
Income before income taxes	1.1%	3.1%	0.8%
Income tax expense	0.4%	0.7%	0.9%
Net income (loss)	0.8%	2.4%	(0.1)%

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

## Comparison of Years Ended December 31, 2019 and 2018

### Sales

(Dollars in millions)	Year Ended December 31,		
	2019	2018	Change
Sales	\$ 338.3	\$ 356.9	\$ (18.6) (5.2)%

Our sales in 2019 decreased \$18.6 million or 5.2% from 2018. The decrease in sales was primarily due to reduced industrial market demand in oil and gas geographies, reduced demand for fasteners and reduced availability of inventory due to supply chain disruptions resulting from the on-going trade discussions between the United States and China. We estimate sales for our project business, which targets end markets for Environmental Compliance, Engineering & Construction, Industrials, Utility Power Generation, and Mechanical Wire Rope, decreased 5%, while Maintenance, Repair, and Operations (MRO) sales decreased 6%, as compared to 2018. When adjusted for fluctuations in commodity prices of approximately 2%, we estimate that MRO and project business sales decreased by 4% and 3%, respectively.

### Gross Profit

(Dollars in millions)	Year Ended December 31,		
	2019	2018	Change
Gross profit	\$ 79.9	\$ 85.2	\$ (5.3) (6.2)%
Gross profit as a percent of sales	23.6%	23.9%	

Gross profit decreased \$5.3 million or 6.2% from 2018. The decrease in gross profit was primarily due to decreased sales. Gross margin (gross profit as a percentage of sales) was near flat at 23.6% in 2019 compared to 23.9% in 2018.

## Operating Expenses

(Dollars in millions)	Year Ended			Change
	2019	2018	December 31,	
Operating expenses:				
Salaries and commissions	\$ 37.2	\$ 38.1	\$ (0.9)	(2.4)%
Other operating expenses	33.2	31.0	2.3	7.4%
Depreciation and amortization	2.5	2.2	0.3	14.9%
Impairment charge	0.1	0.1	0.1	0.0%
Total operating expenses	<u>\$ 73.0</u>	<u>\$ 71.3</u>	<u>\$ 1.7</u>	2.4%
Operating expenses as a percent of sales	21.6%	20.0%		

*Salaries and Commissions.* Salaries and commissions decreased \$0.9 million or 2.4% primarily due to lower commissions resulting from the reduction in sales and gross profit.

*Other Operating Expenses.* Other operating expenses increased \$2.3 million or 7.4% primarily due to the \$2.2 million early termination liability related to Vertex's Massachusetts facility lease and additional warehouse distribution expenses resulting from the closure of this facility and two additional warehouse moves in the fourth quarter.

*Depreciation and Amortization.* Depreciation and amortization increased slightly to \$2.5 million in 2019 from \$2.2 million in 2018 primarily due to depreciation on right-of-use assets from the adoption of Accounting Standards Update ("ASU") 842.

*Impairment Charge.* The Company recorded non-cash impairment charges in 2019 and 2018 with respect to tradenames at its Southwest reporting unit. (See Note 4 to our Consolidated Financial Statements)

Operating expenses as a percentage of sales increased to 21.6% in 2019 from 20.0% in 2018, as operating expenses increased combined with a reduction in sales.

## Interest Expense

Interest expense increased 5.2% to \$3.1 million in 2019 from \$2.9 million in 2018 due to higher average debt to fund increased working capital and the payment of the early termination liability discussed above. Average debt was \$76.6 million in 2019 compared to \$76.8 million in 2018. The average effective interest rate increased slightly to 3.8% in 2019 from 3.7% in 2018.

## Income Tax

Income tax expense decreased 45.9% to \$1.3 million in 2019 from \$2.4 million in 2018. The effective income tax rate was 33.3% in 2019 compared to 21.4% in 2018. The effective tax rate is affected by recurring items, such as nondeductible expenses, share-based compensation and state taxes. In addition, the effective tax rate for 2018 included a benefit of (9.5%) for the release of the valuation allowance on our net deferred tax assets.

## Comparison of Years Ended December 31, 2018 and 2017

### Sales

(Dollars in millions)	Year Ended December 31,			
	2018	2017	Change	
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 MRO sales increased 11%, as compared to 2017.

### Gross Profit

(Dollars in millions)	Year Ended December 31,			
	2018	2017	Change	
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 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,			
	2018	2017	Change	
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	\$ 71.3	\$ 68.1	\$ 3.3	4.8%
Operating expenses as a percent of sales	20.0%	21.4%		

*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 4 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.

## **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, 2019 and 2018***

Our net cash used in operating activities was \$5.6 million in 2019 compared to cash provided by operating activities of \$5.3 million in 2018. We had net income of \$2.6 million in 2019 compared to \$8.6 million in 2018.

Changes in our operating assets and liabilities resulted in cash used in operating activities of \$19.3 million in 2019. The majority of the change was due to increased inventories of \$20.3 million and lease payments of \$6.2 million. Partially offsetting these uses of cash was the increase of accounts payable of \$2.6 million, increase in accrued liabilities of \$2.4 million and decrease in accounts receivable of \$2.6 million.

Net cash used in investing activities was \$2.4 million in 2019 compared to \$1.5 million in 2018. The increase was primarily due to expenditures for the computer system upgrade and conversion.

Net cash provided by financing activities was \$10.7 million in 2019 compared to cash used in financing activities of \$2.5 million in 2018. Net borrowings under our revolver of \$12.2 million and the purchase of treasury stock of \$1.2 million were the main components of financing activities in 2019.

### ***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.

## ***Indebtedness***

Our principal source of liquidity at December 31, 2019 was working capital of \$138.5 million compared to \$126.2 million at December 31, 2018. We also had available borrowing capacity of approximately \$22.8 million at December 31, 2019 and \$28.7 million at December 31, 2018 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 December 10, 2019. The Loan Agreement provides a \$115 million revolving credit facility and expires on 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, 2019, we met the availability-based covenant.

## **Capital Expenditures**

We made capital expenditures of \$2.4 million, \$1.5 million and \$1.8 million in the years ended December 31, 2019, 2018 and 2017, respectively.

## **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

## **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**

**Index to consolidated financial statements**

	<b>Page</b>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2019 and 2018	F-2
Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017	F-3
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	F-5
Notes to Consolidated Financial Statements	F-6



## **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, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

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, 2019, 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 13, 2020 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.

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

/s/ Ernst & Young LLP

Houston, Texas  
March 13, 2020

**Houston Wire & Cable Company**  
**Consolidated Balance Sheets**

	December 31,	
	2019	2018
	(In thousands, except share data)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 4,096	\$ 1,393
Accounts receivable, net		
Trade	50,325	52,946
Other	6,640	6,847
Inventories, net	114,069	94,325
Income tax receivable	1,353	435
Prepays and other current assets	1,833	737
Total current assets	178,316	156,683
Property and equipment, net	14,589	11,456
Intangible assets, net	10,282	11,179
Goodwill	22,353	22,353
Deferred income taxes	600	930
Operating lease right-of-use assets, net	13,481	—
Other assets	527	456
Total assets	\$ 240,148	\$ 203,057
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable	\$ 13,858	\$ 11,253
Accrued and other current liabilities	23,261	19,232
Operating lease liabilities	2,742	—
Total current liabilities	39,861	30,485
Debt	83,500	71,316
Operating lease long term liabilities	11,182	—
Other long-term obligations	1,977	578
Total liabilities	136,520	102,379
<b>Stockholders' equity:</b>		
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: 16,556,950 and 16,611,651 shares outstanding at December 31, 2019 and 2018, respectively	21	21
Additional paid-in capital	52,304	53,514
Retained earnings	108,626	105,975
Treasury stock	(57,323)	(58,832)
Total stockholders' equity	103,628	100,678
Total liabilities and stockholders' equity	\$ 240,148	\$ 203,057

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

**Houston Wire & Cable Company**  
**Consolidated Statements of Operations**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands, except share and per share data)		
Sales	\$ 338,286	\$ 356,858	\$ 317,697
Cost of sales	<u>258,364</u>	<u>271,650</u>	<u>245,035</u>
Gross profit	79,922	85,208	72,662
Operating expenses:			
Salaries and commissions	37,180	38,110	36,570
Other operating expenses	33,238	30,962	28,716
Depreciation and amortization	2,502	2,178	2,772
Impairment charge	<u>120</u>	<u>60</u>	<u>—</u>
Total operating expenses	<u>73,040</u>	<u>71,310</u>	<u>68,058</u>
Operating income	6,882	13,898	4,604
Interest expense	<u>3,057</u>	<u>2,907</u>	<u>2,073</u>
Income before income taxes	3,825	10,991	2,531
Income tax expense	<u>1,275</u>	<u>2,355</u>	<u>2,753</u>
Net income (loss)	<u>\$ 2,550</u>	<u>\$ 8,636</u>	<u>\$ (222)</u>
Earnings (loss) per share:			
Basic	<u>\$ 0.16</u>	<u>\$ 0.53</u>	<u>\$ (0.01)</u>
Diluted	<u>\$ 0.15</u>	<u>\$ 0.52</u>	<u>\$ (0.01)</u>
Weighted average common shares outstanding:			
Basic	<u>16,433,644</u>	<u>16,389,876</u>	<u>16,269,611</u>
Diluted	<u>16,552,866</u>	<u>16,523,599</u>	<u>16,269,611</u>

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, 2017	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
<b>Balance at December 31, 2017</b>	<b>20,988,952</b>	<b>21</b>	<b>54,006</b>	<b>97,336</b>	<b>(4,497,771)</b>	<b>(60,619)</b>	<b>90,744</b>
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
<b>Balance at December 31, 2018</b>	<b>20,988,952</b>	<b>21</b>	<b>53,514</b>	<b>105,975</b>	<b>(4,377,301)</b>	<b>(58,832)</b>	<b>100,678</b>
Net income	—	—	—	2,550	—	—	2,550
Repurchase of treasury shares	—	—	—	—	(262,231)	(1,188)	(1,188)
Amortization of unearned stock compensation	—	—	1,471	—	—	—	1,471
Impact of forfeited awards	—	—	117	—	(9,142)	(117)	—
Impact of released vested restricted stock units	—	—	(1,019)	—	77,046	1,019	—
Settlement of director's deferred compensation	—	—	—	—	2,251	16	16
Issuance of restricted stock awards	—	—	(1,779)	—	137,375	1,779	—
Cumulative effect of accounting change (Note 10)	—	—	—	101	—	—	101
<b>Balance at December 31, 2019</b>	<b>20,988,952</b>	<b>21</b>	<b>\$ 52,304</b>	<b>\$ 108,626</b>	<b>(4,432,002)</b>	<b>\$ (57,323)</b>	<b>\$ 103,628</b>

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,		
	2019	2018	2017
	(In thousands)		
<b>Operating activities</b>			
Net income (loss)	\$ 2,550	\$ 8,636	\$ (222)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Impairment charge	120	60	—
Depreciation and amortization	2,502	2,178	2,772
Amortization of unearned stock compensation	1,471	1,298	1,176
Non-cash lease expense	5,887	—	—
Provision for doubtful accounts	119	73	68
Provision for refund liability	84	37	180
Provision for inventory obsolescence	515	615	34
Deferred income taxes	431	(1,344)	1,314
Other non-cash items	54	25	42
Changes in operating assets and liabilities:			
Accounts receivable	2,625	(2,507)	(12,719)
Inventories	(20,259)	(6,825)	(7,942)
Income taxes	(918)	14	1,499
Prepaid expenses	(265)	1,201	(1,368)
Lease payments	(6,194)	—	—
Book overdraft	—	(3,028)	(153)
Trade accounts payable	2,605	2,804	38
Accrued and other current liabilities	2,394	2,460	3,571
Other operating activities	673	(359)	368
Net cash (used in) provided by operating activities	(5,606)	5,338	(11,342)
<b>Investing activities</b>			
Purchase of property and equipment	(2,379)	(1,503)	(1,769)
Proceeds from disposals of property and equipment	5	20	8
Cash refunded (paid) for acquisition	—	—	193
Net cash used in investing activities	(2,374)	(1,483)	(1,568)
<b>Financing activities</b>			
Borrowings on revolver	364,671	367,513	333,301
Payments on revolver	(352,487)	(369,752)	(320,133)
Payment of dividends	(36)	(48)	(81)
Purchase of treasury stock/stock surrendered on vested awards	(1,172)	(175)	(177)
Lease payments	(293)	—	—
Net cash (used in) provided by financing activities	10,683	(2,462)	12,910
Net change in cash	2,703	1,393	—
Cash at beginning of year	1,393	—	—
Cash at end of year	<u>\$ 4,096</u>	<u>\$ 1,393</u>	<u>\$ —</u>
<b>Supplemental disclosures</b>			
Cash paid during the year for interest	<u>\$ 3,011</u>	<u>\$ 2,811</u>	<u>\$ 1,961</u>
Cash paid during the year for income taxes	<u>\$ 1,762</u>	<u>\$ 3,696</u>	<u>\$ 64</u>

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-two 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.

#### *Accounts Receivable*

Accounts receivable consists primarily of receivables from customers, less an allowance for doubtful accounts of \$0.2 million at December 31, 2019 and 2018. The Company has no contractual repurchase arrangements with its customers. Credit losses have been within management’s expectations.

#### *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.

#### *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. At year end, the Company recalculates the rebates earned based on actual purchases made.

#### *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 \$1.7 million for the year ended December 31, 2019, and \$1.4 million for each of the years ended December 31, 2018 and 2017.

#### *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, 2019, the goodwill balance was \$22.4 million, representing 9.3% 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 performs a quantitative assessment and 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. See Note 4 for more details.

### ***Intangibles***

Intangible assets, from the acquisition of Southwest and Southern in 2010 and the acquisition of Vertex in 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. See Note 4 for more details.

### ***Leases***

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. The assessment is based on (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefit from the use of the asset throughout the period, and (3) whether the Company has the right to direct the use of the asset. All significant lease arrangements are recognized at lease commencement. Leases with a lease term of 12 months or less at inception are not recorded on the Consolidated Balance Sheets and are expensed on a straight-line basis over the lease term in the Consolidated Statements of Operations. The Company determines the lease term by assuming the exercise of renewal options that are reasonably certain. As most of the leases do not provide an implicit interest rate, the Company uses the incremental borrowing rate which approximates to a collateralized rate at the commencement date to determine the present value of future payments that are reasonably certain. See Note 11 for more details.

### ***Self Insurance***

The Company retains certain self-insurance risks for health benefits. 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 a refund liability, included in accrued and other liabilities, with a corresponding reduction to sales. 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 2019, 2018 or 2017. The Company performs periodic credit evaluations of its customers and generally does not require collateral.

### ***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 have 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 operating 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 February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Under the new guidance as amended, a lessee is required to recognize a right-of use asset and a lease liability for leases greater than 1 year, both finance and operating leases. This update was effective for public companies for fiscal years beginning after December 15, 2018. Under the transition rules, 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 previously-existing GAAP. The Company adopted this ASU effective January 1, 2019. See Note 11 for detailed information.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which 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 superseded Subtopic 505-50, "Equity - Equity-Based Payments to Non-Employees," and was effective for public entities for interim and annual reporting periods beginning after December 15, 2018. The Company adopted this ASU in the first quarter of 2019, and the adoption did not have a material impact on the Company's consolidated financial statements.



## 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 the FASB’s disclosure framework project. The guidance is effective for public companies beginning in the first quarter of 2020. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40); Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” 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. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments - Credit Losses. This ASU, among other narrow-scope improvements, clarifies guidance around how to report expected recoveries. This ASU permits organizations to record expected recoveries on assets purchased with credit deterioration. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities. The effective date and transition methodology are the same as in ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The FASB deferred the effective dates of this ASU for smaller reporting companies (“SRC”) to fiscal years beginning after December 15, 2022. As of December 31, 2019, the Company qualifies as a SRC and will adopt this ASU in the first quarter of 2023.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. This ASU removes specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether certain exceptions apply in a given period. This ASU also improves financial statement preparers’ application of income tax-related guidance and simplifies GAAP for: a) Franchise taxes that are partially based on income; b) Transactions with a government that result in a step up in the tax basis of goodwill; c) Separate financial statements of legal entities that are not subject to tax; and d) Enacted changes in tax laws in interim periods. For public business entities, ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently assessing the impact of this ASU on its consolidated financial statements.

## 2. 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 options 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,		
	2019	2018	2017
Denominator:			
Weighted average common shares for basic earnings per share	16,433,644	16,389,876	16,269,611
Effect of dilutive securities	119,222	133,723	—
Denominator for diluted earnings per share	<u>16,552,866</u>	<u>16,523,599</u>	<u>16,269,611</u>

Stock awards to purchase 369,325, 298,406 and 808,391 shares of common stock were not included in the diluted net income (loss) per share calculation for 2019, 2018 and 2017, 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 9, and therefore, these participating securities were treated as a separate class in computing earnings per share.

### 3. Detail of Selected Balance Sheet Accounts

#### Accounts Receivable

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(In thousands)		
Balance at beginning of year	\$ 182	\$ 172	\$ 151
Bad debt expense	119	73	68
Write-offs, net of recoveries	<u>(90)</u>	<u>(63)</u>	<u>(47)</u>
Balance at end of year	<u>\$ 211</u>	<u>\$ 182</u>	<u>\$ 172</u>

#### Inventories

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(In thousands)		
Balance at beginning of year	\$ 3,709	\$ 3,925	\$ 4,366
Provision for inventory write-downs	515	615	34
Deduction for inventory write-offs	<u>(640)</u>	<u>(831)</u>	<u>(475)</u>
Balance at end of year	<u>\$ 3,584</u>	<u>\$ 3,709</u>	<u>\$ 3,925</u>

#### Property and Equipment, net

Property and equipment are stated at cost and consist of:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(In thousands)	
Land	\$ 2,476	\$ 2,476
Buildings	8,712	8,501
Machinery and equipment <sup>(1)</sup>	<u>19,199</u>	<u>14,867</u>
	30,387	25,844
Less accumulated depreciation	<u>(15,798)</u>	<u>(14,388)</u>
Total	<u>\$ 14,589</u>	<u>\$ 11,456</u>

(1) This includes finance leases. See Note 11 for more details.

#### Intangible assets

Intangible assets consist of:

	<u>At December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(In thousands)	
Tradenames	\$ 5,816	\$ 5,936
Customer relationships	<u>18,620</u>	<u>18,620</u>
	24,436	24,556
Less accumulated amortization:		
Tradenames	—	—
Customer relationships	<u>(14,154)</u>	<u>(13,377)</u>
	(14,154)	(13,377)
Total	<u>\$ 10,282</u>	<u>\$ 11,179</u>

As of December 31, 2019, accumulated amortization on the acquired intangible assets was \$14.2 million, and amortization expense was \$0.8 million in the years ended December 31, 2019 and 2018 and \$1.4 million in the year ended December 31, 2017. Future amortization expense to be recognized on the acquired intangible assets is expected to be as follows:

***Intangible assets***

Intangible assets consist of:

	At December 31,	
	2019	2018
	(In thousands)	
Tradenames	\$ 5,816	\$ 5,936
Customer relationships	<u>18,620</u>	<u>18,620</u>
	24,436	24,556
Less accumulated amortization:		
Tradenames	—	—
Customer relationships	<u>(14,154)</u>	<u>(13,377)</u>
	(14,154)	(13,377)
Total	<u>\$ 10,282</u>	<u>\$ 11,179</u>

***Goodwill***

	At December 31,	
	2019	2018
	(In thousands)	
Balance at beginning of year	\$ 22,353	\$ 22,353
Less purchase price adjustment	—	—
Balance at end of year <sup>(1)</sup>	<u>\$ 22,353</u>	<u>\$ 22,353</u>

(1) The balance is net of \$12.6 million of accumulated impairment losses, of which none were recorded in 2019 or 2018.

## Accrued and Other Current Liabilities

### Goodwill

	At December 31,	
	2019	2018
	(In thousands)	
Balance at beginning of year	\$ 22,353	\$ 22,353
Less purchase price adjustment	—	—
Balance at end of year <sup>(1)</sup>	<u>\$ 22,353</u>	<u>\$ 22,353</u>

(1) The balance is net of \$12.6 million of accumulated impairment losses, of which none were recorded in 2019 or 2018.

#### 4. Impairment of Goodwill and Intangible Assets

The annual goodwill and indefinite-lived intangibles impairment test was performed using the qualitative assessment option as of October 1, 2019 for the Southern, Southwest and Vertex reporting units, resulting in a conclusion that it was more-likely-than-not that the fair value of the reporting units exceeded their respective carrying values except for certain tradenames of the Southwest reporting unit for which a quantitative test was necessary and an impairment charge of \$0.1 million was recorded in 2019.

In 2018, a quantitative assessment was performed in which 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 15.0%, 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.

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.

#### 5. Debt

On March 12, 2019 and December 10, 2019, the Company, as guarantor, HWC Wire & Cable Company and Vertex, as borrowers, and Bank of America, N.A., as agent and lender, entered into the Second and Third Amendments, respectively, to the Fourth Amended and Restated Loan and Security Agreement (such agreement, as so amended, the "Loan Agreement"). The Second Amendment extends the expiration date until March 12, 2024 and the Third Amendment increases the revolving credit facility to \$115 million. 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 March 12, 2024. At December 31, 2019, the Company was in compliance with the availability-based covenant and fixed coverage ratio 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, 2019 and 2018 were \$83.5 million and \$71.3 million, respectively. The weighted average interest rate on outstanding borrowings were 3.4% and 4.1% at December 31, 2019 and 2018, respectively.

At December 31, 2019, the Company had available borrowing capacity of \$22.8 million under the terms of the Loan Agreement. The Company paid \$0.1 million for each of the years ended December 31, 2019, 2018, and 2017, for the unused facility.

Principal repayment obligations for succeeding fiscal years are as follows:

	(In thousands)
2020	\$ —
2021	—
2022	—
2023	—
2024	<u>83,500</u>
Total	<u>\$ 83,500</u>

## 6. Income Taxes

The provision (benefit) for income taxes consists of:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Current:			
Federal	\$ 719	\$ 3,041	\$ 1,280
State	<u>125</u>	<u>658</u>	<u>159</u>
Total current	<u>844</u>	<u>3,699</u>	<u>1,439</u>
Deferred:			
Federal	400	(1,246)	1,259
State	<u>31</u>	<u>(98)</u>	<u>55</u>
Total deferred	<u>431</u>	<u>(1,344)</u>	<u>1,314</u>
Total	<u>\$ 1,275</u>	<u>\$ 2,355</u>	<u>\$ 2,753</u>

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

	Year Ended December 31,		
	2019	2018	2017
Federal statutory rate	21.0%	21.0%	35.0%
State taxes, net of federal benefit	3.4	4.3	4.2
Impairment, non-deductible portion	—	0.1	—
Share-based compensation	3.7	1.2	15.2
Non-deductible items	5.4	2.1	4.6
Valuation allowance	—	(9.5)	41.0
Tax reform rate change	—	—	12.9
Other	<u>(0.2)</u>	<u>2.2</u>	<u>(4.1)</u>
Total effective tax rate	<u>33.3%</u>	<u>21.4%</u>	<u>108.8%</u>

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

	Year Ended December 31,	
	2019	2018
	(In thousands)	
Deferred tax assets:		
Operating lease right-of-use assets	\$ 2,924	\$ —
Inventory reserve	915	1,007
Uniform capitalization adjustment	1,394	1,254
Stock compensation expense	568	586
State deferred tax asset	128	145
Accrued commission	106	297
Other	144	230
Total deferred tax assets	<u>6,179</u>	<u>3,519</u>
Deferred tax liabilities		
Operating lease right-of-use assets	(2,831)	—
Goodwill	(715)	(554)
Intangible assets	(1,904)	(1,976)
Other	(129)	(59)
Total deferred tax liabilities	<u>(5,579)</u>	<u>(2,589)</u>
Net deferred tax assets	<u>\$ 600</u>	<u>\$ 930</u>

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 Company does not have any unrecognized tax benefits recorded at December 2019, 2018 and 2017. 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, 2019, 2018 and 2017, the Company recorded no provision for interest or penalties related to uncertain tax positions. The tax years 2015 through 2019 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. In August 2019, the plan was reactivated. During 2019, the Company made repurchases under the stock repurchase program of 235,500 shares for a total cost of \$1.1 million.

Under the terms of the 2017 Stock Plan, the Company acquired 26,731 shares and 25,368 shares that were surrendered by the holders to pay withholding taxes in 2019 and 2018, respectively.

The Company paid a quarterly cash dividend from August 2007 until August 2016. The Company has not paid a cash dividend since 2016.

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.

## 5. 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, 2019, 2018 and 2017 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. Effective November 30, 2019, there are no active employees in the plan as the plan was frozen with the closure of Vertex's Massachusetts facility. The benefit provisions to participants of the defined benefit plan were 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, 2019, 2018 and 2017.

The current projected benefit obligation was \$1.3 million and \$1.1 million as of December 31, 2019 and 2018, respectively. The discount rate used to determine the projected benefit obligation was 3.2% and 4.2% in 2019 and 2018, respectively.

The fair value of the assets of the defined benefit plan was \$1.3 million and \$1.0 million in 2019 and 2018, respectively. The plan assets are all classified as Level 1 and as such have readily observable prices and therefore a reliable fair market value.

As of November 30, 2019, the defined benefit plan is inactive, with no additional incremental benefits being accrued and no contributions being made.

## 6. 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 may grant options to purchase its common stock to employees and directors of the Company under the 2006 Plan and 2017 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. Each 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 2019, 2018 or 2017.

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:

	Options (in 000's)		Weighted Average Exercise Price		Aggregate Intrinsic Value		Weighted Average Remaining Contractual Life (in years)	
	2019	2018	2019	2018	2019	2018	2019	2018
Outstanding-Beginning of year	154	223	13.40	13.10	\$ —	\$ —	2.52	2.84
Granted	—	—	—	—				
Exercised	—	—	—	—				
Forfeited	(22)	(30)	13.04	11.17				
Expired	(10)	(39)	10.32	13.42				
Outstanding-End of year	<u>122</u>	<u>154</u>	13.72	13.40	\$ —	\$ —	1.75	2.52
Exercisable-End of year	<u>122</u>	<u>154</u>	13.72	13.40	\$ —	\$ —	1.75	2.52

There was no excess tax benefit for the years ended December 31, 2019, 2018 and 2017.

There were no options exercised in the years ended December 31, 2019, 2018 and 2017. There is no intrinsic value of options outstanding and exercisable as of December 31, 2019 as the closing stock price at the end of 2019 creates a negative intrinsic value.

The total grant-date fair value of options vested during 2019 was \$0, as all the options vested as of December 31, 2018. The total grant-date fair value of options vested during the year ended December 31, 2017 was \$0.2 million.

#### **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 3, 2019, the Board of Directors granted to the Company's President and CEO 78,125 voting shares of restricted stock and to the CFO, 19,531 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.

Also, on December 3, 2019, the Board of Directors granted 250,000 shares of restricted stock to the Company's President and CEO and 125,000 shares of restricted stock to the CFO. Each grant vests if there is a Change in Control of the Company (as defined in the 2017 Plan) on or before December 2, 2024, as long as the recipient remained in continuous employment with the Company or a Subsidiary until the Change in Control or if the recipient was terminated by the Company without cause within one year before the Change in Control. Any dividends declared will be accrued and paid to the grantee if and when the related shares vest.

The Board of Directors also granted 39,719 voting shares of restricted stock under the 2017 Plan to members of management in December 2019. 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.

Following the Annual Meeting of Stockholders on May 7, 2019, the Company granted restricted stock units with a grant date value of \$60,000 to each nonemployee director who was elected, for an aggregate of 58,920 restricted stock units. Each award of restricted stock units vests at the date of the 2020 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.

On March 12, 2019, the Board of Directors granted 52,910 performance stock units to the Company's President and CEO and 13,228 performance stock units to the CFO. Each grant of performance stock units vests on December 31, 2021, based on and subject to the Company's achievement of cumulative EBITDA and stock price performance goals over a three-year period, as long as the grantee is then employed by the Company, and upon vesting will be settled in shares of our common stock. Any dividends declared will be accrued and paid to the grantee if and when the related shares vest.

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.

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 years ended December 31, 2019 and 2018:

	Shares			
	2019		2018	
	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	259	\$ 6.78	238	\$ 7.33
Granted	511	3.84	133	6.51
Vested	(107)	7.24	(99)	7.61
Cancelled/Forfeited	(9)	6.34	(13)	7.63
Expired	—	—	—	—
Cash awards converted to equity	—	—	—	—
Non-vested -End of year	<u>654</u>	\$ 5.18	<u>259</u>	6.78

  

	Units			
	2019		2018	
	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	215	\$ 7.59	40	\$ 7.50
Granted	125	5.88	43	7.47
Vested	(60)	7.59	(60)	7.65
Cancelled/Forfeited	(3)	7.65	(5)	7.65
Expired	—	—	—	—
Cash awards converted to equity	—	—	197	7.65
Non-vested -End of year	<u>277</u>	6.83	<u>215</u>	7.59

Total stock-based compensation cost was \$1.5 million for the year ended December 31, 2019, \$1.3 million for the year ended December 31, 2018, and \$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. Total income tax benefit recognized for equity awards stock-based compensation arrangements was \$0.2 million for each of the years ended December 31, 2019, 2018 and 2017.

As of December 31, 2019, there was \$1.8 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 26 months. There are 5,148 shares available for future grants under the 2017 Plan at December 31, 2019.

## 7. Commitments and Contingencies

The Company had aggregate purchase commitments for fixed inventory quantities of approximately \$59.0 million at December 31, 2019.

The Company had outstanding under the Loan Agreement letters of credit totaling \$1.8 million to certain vendors as of December 31, 2019.

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 the Company's consolidated financial position, cash flows, or results from operations.

## 8. Leases

Effective January 1, 2019, the Company adopted ASU No. 2016-02, "Leases (Topic 842)" and the series of related ASUs that followed (collectively referred to as "Topic 842"). The most significant changes under the new guidance include clarification of the definition of a lease, and the requirements for lessees to recognize a right-of-use (ROU) asset and a lease liability for all qualifying leases with terms longer than twelve months in the consolidated balance sheet. In addition, under Topic 842, additional disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

The Company elected the practical expedient available under ASU 2018-11 "Leases: Targeted Improvements," which allows the Company to apply the transition provision for Topic 842 at the Company's adoption date instead of at the earliest comparative period presented in the Company's financial statements. Therefore, the Company recognized and measured leases existing at January 1, 2019 but without retrospective application. The Company also elected all other available practical expedients except the hindsight practical expedient. In electing the practical expedients, the Company utilized the transition practical expedient package whereby the Company did not reassess (i) whether any of the Company's expired or existing contracts contain a lease, (ii) the classification for any expired or existing leases and (iii) initial direct costs for any existing leases.

The impact of Topic 842 on the Company's consolidated balance sheet as of January 1, 2019 was the recognition of ROU assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged. The Company's finance leases were immaterial prior to the adoption of Topic 842, and no change was made to the classification of these leases. As a result of the adoption of Topic 842, beginning retained earnings was impacted by \$0.1 million and there was no impact to the income statement.

The Company leases property including warehouse space, offices, vehicles and equipment. The Company determines if an arrangement is a lease at inception. As part of the transition to the new standard, the Company reviewed agreements with suppliers, vendors, customers, and other outside parties to determine if any agreements met the definition of an embedded lease. This is based on the nature of the contracts reviewed, and various factors, including identified assets included in the agreement to which the Company has exclusive rights of control as described by Topic 842. The Company concluded that these are not material agreements with parties that would constitute an embedded lease. For purposes of calculating operating lease liabilities, lease terms may be deemed to include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Beginning January 1, 2019, operating ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Operating leases in effect prior to January 1, 2019 were recognized at the present value of the remaining lease payments over the remaining lease term as of January 1, 2019. The Company is required to determine a discount rate in order to calculate the present value of lease payments. If the rate is not included in the lease or cannot be readily determined, the Company uses its incremental secured borrowing rate based on lease term information available at the commencement date of the lease in determining the present value of lease payments. The Company recognizes lease components and non-lease components together and not as separate parts of a lease for all leases. The Company will exercise this practical expedient in the future by asset class.

<u>Lease Type</u>	<u>Income Statement Classification</u>	<u>Amount</u>
(Dollars in thousands)		
Consolidated operating lease expense	Operating expenses	\$ 5,887
Consolidated financing lease amortization	Depreciation and amortization	305
Consolidated financing lease interest	Interest expense	61
Consolidating financing lease expense		<u>366</u>
Net lease cost		<u>\$ 6,253</u>

Rent expense was approximately \$3.7 million and \$3.5 million in 2018 and 2017, respectively.

The value of the net assets and liabilities generated by the leasing activity of the Company as lessee as of December 31, 2019 were as follows:

<u>Lease Type</u>	<u>Balance Sheet Classification</u>	<u>Amount</u>
(Dollars in thousands)		
Total ROU operating lease assets <sup>(1)</sup>	Operating lease right-of-use assets, net	\$ 13,481
Total ROU financing lease assets <sup>(2)</sup>	Property and equipment, net	2,430
Total lease assets		<u>\$ 15,911</u>
Total current operating lease obligation	Operating lease liabilities	\$ 2,742
Total current financing lease obligation	Accrued and other current liabilities	593
Total current lease obligation		<u>\$ 3,335</u>
Total long term operating lease obligation	Operating lease long term liabilities	\$ 11,182
Total long term financing lease obligation	Other long term liabilities	1,860
Total long term lease obligation		<u>\$ 13,042</u>

<sup>(1)</sup> Operating lease assets are recorded net of accumulated amortization of \$2.3 million as of December 31, 2019

<sup>(2)</sup> Financing lease assets are recorded net of accumulated amortization of \$0.4 million as of December 31, 2019

The future minimum lease payments for finance and operating lease liabilities of the Company as lessee as of December 31, 2019 were as follows:

<u>Maturity Date of Lease Liabilities</u>	<u>Operating Leases</u>	<u>Financing Leases</u>	<u>Total</u>
(Dollars in thousands)			
Year one	\$ 3,391	708	4,099
Year two	3,298	661	3,959
Year three	3,169	599	3,768
Year four	2,509	517	3,026
Year five	2,181	256	2,437
Subsequent years	1,266	—	1,266
Total lease payments	15,814	2,741	18,555
Less: Interest	1,900	289	2,189
Present value of lease liabilities	<u>\$ 13,914</u>	<u>2,452</u>	<u>16,366</u>

The weighted average remaining lease terms and discount rates of the leases held by the Company as of December 31, 2019 were as follows:

<u>Lease Type</u>	<u>Weighted Average Term in Years</u>	<u>Weighted Average Interest Rate</u>
Operating leases	4.9	5.3
Financing leases	4.2	5.3

The cash outflows of the leasing activity of the Company as lessee for the twelve months ended December 31, 2019 were as follows:

<u>Cash Flow Source</u>	<u>Classification</u>	<u>Amount</u>
(Dollars in thousands)		
Operating cash outflows from operating leases	Operating activities	\$ 6,140
Operating cash outflows from financing leases	Operating activities	54
Financing cash outflows from financing leases	Financing activities	293

During the year ended December 31, 2019, the Company recorded non-cash ROU financing lease assets and corresponding financing lease obligations totaling \$2.5 million primarily related to warehouse machinery and IT infrastructure lease agreements.

During the year ended December 31, 2019, the Company modified certain terms of the lease agreement with the landlord of Vertex's Massachusetts facility, including early termination of the lease on November 30, 2019 and Vertex subleasing a portion of the space until the end of November. In connection with the modification, the Company recognized expense related to the early termination of approximately \$2.2 million.

The Company has entered into two operating leases during 2020, with significant rights and obligations that total \$0.8 million. All other leases are not material.

## 12. 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, 2019. The unaudited information has been prepared on the same basis as the audited consolidated financial statements.

	Year Ended December 31, 2019			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(in thousands, except per share data)			
Sales	\$ 82,287	\$ 85,403	\$ 85,326	\$ 85,270
Gross profit	\$ 18,695	\$ 19,431	\$ 20,537	\$ 21,259
Operating (loss) income	\$ 76	\$ (87)	\$ 3,030	\$ 3,863
Net (loss) income	\$ (656)	\$ (721)	\$ 1,643	\$ 2,284
Earnings (loss) per share:				
Basic	\$ (0.04)	\$ (0.04)	\$ 0.10	\$ 0.14
Diluted	\$ (0.04)	\$ (0.04)	\$ 0.10	\$ 0.14

	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 <sup>(1)</sup>
Diluted	\$ 0.10	\$ 0.15	\$ 0.16	\$ 0.12 <sup>(1)</sup>

(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, 2019.

#### **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, 2019. 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 21 and 22 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, 2019 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, 2019 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, 2019 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 22.

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, 2019, 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, 2019, 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, 2019, 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, 2019 and 2018, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated March 13, 2020 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 13, 2020

## **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 “Proposal No. 1 – Election of Directors” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 5, 2020. 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 – Delinquent Section 16(a) Reports” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 5, 2020.

The information called for by Item 10 relating to the code of ethics is incorporated herein by reference to the “Corporate Governance - Code of Business Conduct” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 5, 2020.

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 – Committee Established by the Board of Directors – Nominating and Corporate Governance Committee – 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 5, 2020.

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 - 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 5, 2020.

### **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 5, 2020.

### **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 5, 2020.

### **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 5, 2020.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information called for by Item 14 is incorporated herein by reference to the “Principal Independent Accountant Fees and Services” section of the registrant’s definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 5, 2020.



**PAR**

**T 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, 2019 and 2018
- Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017
- Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017
- 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)
4.1	Description of the Registrant's Securities**
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, 2017 between James L. Pokluda, III and Houston Wire & Cable Company (incorporated by reference to Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed March 29, 2017)
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 on March 12, 2019 and December 10, 2019, 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, Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed October 5, 2016, Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed March 14, 2019 and Exhibit 10.1 to Houston Wire & Cable Company's Current Report on Form 8-K filed on December 12, 2019)
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)
- 10.18\* 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

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOUSTON WIRE & CABLE COMPANY  
(Registrant)

Date: March 13, 2020

By:                                 /s/ CHRISTOPHER M. MICKLAS                                  
Christopher M. Micklas  
Chief Financial Officer, Treasurer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
<u>                                /s/ JAMES L. POKLUDA III                                </u> James L. Pokluda III	President, Chief Executive Officer and Director	March 13, 2020
<u>                                /s/ CHRISTOPHER M. MICKLAS                                </u> Christopher M. Micklas	Chief Financial Officer, Treasurer and Secretary (Principal Accounting Officer)	March 13, 2020
<u>                                /s/ WILLIAM H. SHEFFIELD                                </u> William H. Sheffield	Chairman of the Board	March 13, 2020
<u>                                /s/ ROY W. HALEY                                </u> Roy W. Haley	Director	March 13, 2020
<u>                                /s/ MARGARET S. LAIRD                                </u> Margaret S. Laird	Director	March 13, 2020
<u>                                /s/ ROBERT L. REYMOND                                </u> Robert Raymond	Director	March 13, 2020
<u>                                /s/ SANDFORD W. ROTHE                                </u> Sandford W. Rothe	Director	March 13, 2020
<u>                                /s/ G. GARY YETMAN                                </u> G. Gary Yetman	Director	March 13, 2020

## Description of the Registrant's Securities

Our authorized capital stock consists of 100,000,000 shares of common stock and 5,000,000 shares of undesignated preferred stock. The following summary describes all material provisions of our capital stock.

### Common Stock

Shares of our common stock have the following rights, preferences and privileges:

- *Voting Rights.* Each outstanding share of common stock entitles its holder to one vote on all matters submitted to a vote of our stockholders, including the election of directors. There are no cumulative voting rights. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast by all shares of common stock present or represented by proxy.
- *Dividends.* Subject to the rights of the holders of any preferred stock which may be outstanding from time to time, the holders of common stock are entitled to receive dividends as, when and if dividends are declared by our board of directors out of assets legally available for the payment of dividends.
- *Liquidation.* In the event of a liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, after payment of our liabilities and obligations to creditors and any holders of preferred stock, our remaining assets will be distributed ratably among the holders of shares of common stock on a per share basis.
- *Rights and Preferences.* Our common stock has no preemptive, redemption, conversion or subscription rights. The rights, powers, preferences and privileges of holders of our common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.
- *Merger.* In the event we merge or consolidate with or into another entity, holders of each share of common stock will be entitled to receive the same per share consideration.

Our common stock is listed on The Nasdaq Global Market under the symbol "HWCC."

### Preferred Stock

Our amended and restated certificate of incorporation provides that the board of directors has the authority, without action by the stockholders, to designate and issue up to 5,000,000 shares of preferred stock in one or more classes or series and to fix for each class or series the powers, rights, preferences and privileges of each series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any class or series, which may be greater than the rights of the holders of the common stock.

### Other Provisions of Our Certificate of Incorporation and By-Laws

*No Stockholder Action by Written Consent.* Our certificate of incorporation and by-laws provide that stockholder action can be taken only at an annual or special meeting of stockholders and cannot be taken by written consent in lieu of a meeting.

*No Ability to Call Special Meetings.* Our certificate of incorporation and by-laws provide that, except as otherwise required by law, special meetings of our stockholders can only be called pursuant to a resolution adopted by a majority of our board of directors or by our chief executive officer or the chairman of our board of directors. Stockholders are not permitted to call a special meeting or to require our board to call a special meeting.

*Advance Notice Procedures for Stockholder Proposals.* Our by-laws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board. Stockholders at our annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board or by a stockholder who was a stockholder of record on the record date for the meeting and upon giving of notice and provided that the stockholder has given to our secretary timely written notice, in proper form, of the stockholder's intention to bring that business before the meeting.

### Anti-Takeover Effects of Delaware Law

We are subject to provisions of the Delaware General Corporation Law that prohibit a publicly-held Delaware corporation from engaging in any "business combination" transaction with any "interested stockholder" for a period of three years after the date on which the person became an "interested stockholder," unless:

- prior to this date, the board of directors approved either the "business combination" or the transaction which resulted in the "interested stockholder" obtaining this status;

- upon consummation of the transaction which resulted in the stockholder becoming an “interested stockholder,” the “interested stockholder” owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the “interested stockholder”) those shares owned by (a) persons who are directors and also officers and (b) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- at or subsequent to this time the “business combination” is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 $\frac{2}{3}$ % of the outstanding voting stock which is not owned by the “interested stockholder.”

A “business combination” is defined to include mergers, asset sales and other transactions resulting in financial benefit to a stockholder. In general, an “interested stockholder” is a person who, together with affiliates and associates, owns 15% or more of a corporation’s voting stock or within the past three years owned 15% or more of a corporation’s voting stock.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

**Subsidiary of Houston Wire & Cable  
Company**

<b>Subsidiary</b>	<b>Jurisdiction</b>
HWC Wire & Cable Company	Delaware

**Subsidiary of HWC Wire & Cable  
Company**

<b>Subsidiary</b>	<b>Jurisdiction</b>
PFI, LLC	Rhode Island

**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 13, 2020, 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, 2019.

/s/ Ernst & Young LLP

Houston, Texas  
March 13, 2020



**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, 2019 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 13, 2020

/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, 2019 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 13, 2020

/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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), James L. Pokluda 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 13, 2020	/s/ James L. Pokluda III _____ James L. Pokluda III Chief Executive Officer
Date:	March 13, 2020	/s/ James L. Pokluda III _____ James L. Pokluda III Chief Executive 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.

THIS PAGE INTENTIONALLY LEFT BLANK

**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 5th, 2020, 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](http://www.houwire.com) or by sending a written request to our corporate headquarters address, calling (713) 609-2227 or contacting: [investor.relations@houwire.com](mailto: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.*

**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*

**Maggie Laird**

*Chief Pricing Officer of Hitachi Vantara*

**David Nierenberg**

*Founder and President of Nierenberg Investment Management Company*

**WEBSITE**

[www.houwire.com](http://www.houwire.com)



HOUSTON WIRE & CABLE COMPANY

1-800-HOUWIRE

10201 North Loop East

Houston, Texas 77029

Phone: 713-609-2100

Fax: 713-609-2205