

Houston Wire & Cable CO  
Form 10-Q  
November 12, 2013

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended September 30, 2013**

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**

(Exact name of registrant as specified in its charter)

**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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **YES**  **NO**

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES  NO

At November 1, 2013 there were 17,941,110 outstanding shares of the registrant's common stock, \$0.001 par value per share.

**HOUSTON WIRE & CABLE COMPANY**  
**Form 10-Q**  
**For the Quarter Ended September 30, 2013**

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**HOUSTON WIRE & CABLE COMPANY****Consolidated Balance Sheets**

(In thousands, except share data)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash	\$	\$ 274
Accounts receivable, net	66,980	65,892
Inventories, net	80,236	84,662
Deferred income taxes	2,673	2,455
Income taxes	543	
Prepays	943	841
Total current assets	151,375	154,124
Property and equipment, net	5,662	5,824
Intangible assets, net	10,667	11,967
Goodwill	17,520	25,082
Other assets	166	158
Total assets	\$ 185,390	\$ 197,155
Liabilities and stockholders' equity		
Current liabilities:		
Book overdraft	\$ 4,039	\$
Trade accounts payable	13,999	12,330
Accrued and other current liabilities	12,823	15,379
Income taxes		5
Total current liabilities	30,861	27,714
Debt	44,525	58,588
Other long term obligations	98	103
Deferred income taxes	580	1,670
Total liabilities	76,064	88,075
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized, none issued and outstanding		
Common stock, \$0.001 par value; 100,000,000 shares authorized: 20,988,952 shares issued: 17,941,110 and 17,899,499 outstanding at September 30, 2013 and December 31, 2012, respectively	21	21
Additional paid-in-capital	55,671	55,291
Retained earnings	103,437	104,252
Treasury stock	(49,803)	(50,484)
Total stockholders' equity	109,326	109,080
Total liabilities and stockholders' equity	\$ 185,390	\$ 197,155

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



**HOUSTON WIRE & CABLE COMPANY****Consolidated Statements of Income**

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales	\$ 95,214	\$ 96,113	\$ 288,850	\$ 288,657
Cost of sales	74,292	74,501	224,824	223,655
Gross profit	20,922	21,612	64,026	65,002
Operating expenses:				
Salaries and commissions	7,636	7,478	23,388	22,402
Other operating expenses	6,539	6,256	19,135	18,918
Depreciation and amortization	741	722	2,244	2,194
Impairment of Goodwill	7,562		7,562	
Total operating expenses	22,478	14,456	52,329	43,514
Operating (loss) income	(1,556)	7,156	11,697	21,488
Interest expense	228	334	753	929
Income (loss) before income taxes	(1,784)	6,822	10,944	20,559
Income taxes	1,378	2,590	6,191	7,890
Net income (loss)	\$ (3,162)	\$ 4,232	\$ 4,753	\$ 12,669
Earnings per share:				
Basic	\$ (0.18)	\$ 0.24	\$ 0.27	\$ 0.71
Diluted	\$ (0.18)	\$ 0.24	\$ 0.27	\$ 0.71
Weighted average common shares outstanding:				
Basic	17,830,813	17,732,715	17,794,803	17,719,005
Diluted	17,830,813	17,814,499	17,891,942	17,811,844
Dividend declared per share	\$ 0.11	\$ 0.09	\$ 0.31	\$ 0.27

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

**HOUSTON WIRE & CABLE COMPANY****Consolidated Statements of Cash Flows**

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net (loss) income	\$ 4,753	\$ 12,669
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Impairment of goodwill	7,562	
Depreciation and amortization	2,244	2,194
Amortization of capitalized loan costs	14	14
Amortization of unearned stock compensation	669	809
Provision for doubtful accounts	(59)	(19)
Provision for returns and allowances	30	(44)
Provision for inventory obsolescence	397	563
Deferred income taxes	(1,416)	(640)
Changes in operating assets and liabilities:		
Accounts receivable	(1,059)	(7,282)
Inventories	4,029	(20,163)
Prepays	(102)	(41)
Other assets	(22)	91
Book overdraft	4,039	1,228
Trade accounts payable	1,669	3,161
Accrued and other current liabilities	(2,615)	(5,706)
Income taxes	(557)	1,542
Other long term obligations	(5)	(17)
Net cash provided by (used in) operating activities	19,571	(11,641)
Investing activities		
Expenditures for property and equipment	(782)	(718)
Net cash used in investing activities	(782)	(718)
Financing activities		
Borrowings on revolver	287,223	302,142
Payments on revolver	(301,286)	(285,116)
Proceeds from exercise of stock options	471	137
Excess tax benefit for stock options	44	34
Payment of dividends	(5,509)	(4,781)
Purchase of treasury stock	(6)	(57)
Net cash (used in) provided by financing activities	(19,063)	12,359
Net change in cash	(274)	
Cash at beginning of period	274	
Cash at end of period	\$	\$

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



**HOUSTON WIRE & CABLE COMPANY**  
**Notes to Consolidated Financial Statements**

(Unaudited)  
(in thousands, except share data)

**1. Basis of Presentation and Principles of Consolidation**

Houston Wire & Cable Company (the “Company”), through its wholly owned subsidiaries, HWC Wire & Cable Company, Advantage Wire & Cable and Cable Management Services Inc., provides wire and cable, hardware and related services to the U.S. market through twenty-one locations in thirteen states throughout the United States. The Company has no other business activity.

The consolidated financial statements as of September 30, 2013 and for the three and six months ended September 30, 2013 and 2012 have been prepared following accounting principles generally accepted in the United States (“GAAP”) for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation of the results of these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. All significant inter-company balances and transactions have been eliminated. The Company has evaluated subsequent events through the time these financial statements in this Form 10-Q were filed with the Securities and Exchange Commission (the “SEC”).

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 inventory obsolescence reserve, the reserve for returns and allowances, vendor rebates and asset impairments. Actual results could differ materially from the estimates and assumptions used for the preparation of the financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC.

**2. Earnings (loss) per Share**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Denominator:				
Weighted average common shares for basic earnings per share	17,830,813	17,732,715	17,794,803	17,719,005
Effect of dilutive securities		81,784	97,139	92,839
Weighted average common shares for diluted earnings per share	17,830,813	17,814,499	17,891,942	17,811,844

The weighted average common shares for diluted earnings per share exclude stock options to purchase 815,918 and 602,410 shares for the three months ended September 30, 2013 and 2012, respectively, and 472,280 and 500,325 shares for the nine months ended September 30, 2013 and 2012, respectively. These options have been excluded from the calculation, as including them would have an anti-dilutive effect on earnings (loss) per share for the respective periods.

### **3. Impairment of Goodwill**

During the third quarter of 2013 and prior to the annual impairment test of goodwill in October, the Company concluded that impairment indicators existed at the Southern Wire (Southern) reporting unit, due to a decline in the overall financial performance and overall market demand.

The Company performed step one of the impairment test and concluded that the fair value of the Southern reporting unit was less than its carrying value; therefore, the Company performed step two of the impairment analysis.

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

The fair value of the Southern reporting unit was estimated using a discounted cash flow model combined with a market approach, with a weighting of 50% to the discounted cash flow analysis and 50% to the market approach. The material assumptions used for the income approach included a weighted average cost of capital of 13% and a long-term growth rate of 3-4%. The carrying value of the Southern reporting unit's goodwill was \$20.1 million and its implied fair value resulting from step two of the impairment test was less than the carrying value. As a result, the Company has recorded a non-cash goodwill impairment charge of \$7.6 million during the period ended September 30, 2013.

#### **4. Income Taxes**

Income tax expense for the three months ended September 30, 2013 and 2012 was \$1.4 million and \$2.6 million, respectively. Income tax expense for the nine months ended September 30, 2013 and 2012 was \$6.2 million and \$7.9 million, respectively. The effective tax rates were 56.6% and 38.4% for the nine months ended September 30, 2013 and 2012, respectively. The difference in the effective tax rate compared with U.S federal statutory rate in 2013 is primarily due to the non-deductible portion of the goodwill impairment.

#### **5. Debt**

On September 30, 2011, HWC Wire & Cable Company, as borrower, entered into the Third Amended and Restated Loan and Security Agreement ("2011 Loan Agreement"), with certain lenders and Bank of America, N.A., as agent, and the Company, as guarantor, executed a Second Amended and Restated Guaranty of the borrower's obligations thereunder. The 2011 Loan Agreement provides for a \$100 million revolving credit facility, bears interest at the agent's base rate, with a London Interbank Offered Rate ("LIBOR") option and expires on September 30, 2016. The 2011 Loan Agreement is secured by a lien on substantially all the property of the Company, other than real estate. Availability under the 2011 Loan Agreement is limited to a borrowing base equal to 85% of the value of eligible accounts receivable, plus 65% of the value of eligible inventory, less certain reserves.

Portions of the loan may be converted to LIBOR loans in minimum amounts of \$1,000 and integral multiples of \$100. LIBOR loans bear interest at the British Bankers Association LIBOR Rate plus 125 to 200 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. Unused commitment fees are 25 or 30 basis points, depending on the amount of the unused commitment.

The 2011 Loan Agreement includes, among other things, covenants that require the Company to maintain a specified minimum fixed charge coverage ratio and availability levels. Additionally, the 2011 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 2011 Loan Agreement contains certain provisions that may cause the debt to be classified as a current liability, in accordance with GAAP, if availability falls below certain thresholds, even though the ultimate maturity date under the loan agreement remains as September 30, 2016. Availability has remained above these thresholds. At September 30, 2013, the Company was in compliance with the financial covenants governing its indebtedness.

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

## **6. Stockholders' Equity**

During the first three quarters of 2013, the Board of Directors approved quarterly dividends of \$0.09 per share, \$0.11 per share, and \$0.11 per share, respectively, payable to stockholders. Dividends paid were \$5,509 and \$4,781 during the nine months ended September 30, 2013 and 2012, respectively.

## **7. Stock Based Compensation**

### *Stock Option Awards*

There were no stock options granted during the first nine months of 2013.

### *Restricted Stock Awards and Restricted Stock Units*

Following the Annual Meeting of Stockholders on May 7, 2013, the Company awarded restricted stock units with a value of \$50 to each non-employee director who was re-elected, for an aggregate of 21,006 restricted stock units. Each award of restricted stock units vests at the date of the 2014 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.

Total stock-based compensation cost was \$236 and \$272 for the three months ended September 30, 2013 and 2012, respectively and \$669 and \$809 for the nine months ended September 30, 2013 and 2012, respectively, and is included in salaries and commissions.

## **8. Commitments and Contingencies**

As part of an acquisition made in 2010, the Company assumed the liability for the post-remediation monitoring of the water quality at one of the acquired facilities in Louisiana. The expected liability of \$98 at September 30, 2013 relates to the cost of the monitoring, which the Company estimates will be incurred over approximately the next 4 years, and also the cost to plug the wells. Remediation work was completed prior to the acquisition in accordance with the requirements of the Louisiana Department of Environmental Quality.

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

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

## **9. Subsequent Events**

On November 8, 2013, the Board of Directors approved a dividend on the shares of common stock of the Company in the amount of \$0.11 per share, payable on December 2, 2013, to stockholders of record at the close of business on November 22, 2013.

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

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the Company's financial position and results of operations. MD&A is provided as a supplement to the Company's Consolidated Financial Statements (unaudited) and the accompanying Notes to Consolidated Financial Statements (unaudited) and should be read in conjunction with the MD&A included in the Company's Form 10-K for the year ended December 31, 2012.

### **Overview**

We are one of the largest distributors of wire and cable and related services to the U.S. market. We provide our customers with a single-source solution for wire and cable, hardware and related services by offering a large selection of in-stock items, exceptional customer service and high levels of product expertise.

### *Critical Accounting Policies*

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses. On an on-going basis, we make and evaluate estimates and judgments, including those related to the allowance for doubtful accounts, the reserve for returns and allowances, the inventory reserve, intangible assets, vendor rebates and goodwill. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances; the results of which form the basis for making judgments about amounts and timing of revenue and expenses, the carrying values of assets and the recorded amounts of liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and such estimates may change if the underlying conditions or assumptions change. We have discussed the development and selection of critical accounting policies and estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed our related disclosures. The critical accounting policies related to the estimates and judgments are discussed in our Annual Report on Form 10-K for the year ended December 31, 2012 under Management's Discussion and Analysis of Financial Condition and Results of Operations. There have been no changes to our critical accounting policies and estimates during the nine months ended September 30, 2013, other than the impairment of goodwill.

### Cautionary Statement for Purposes of the “Safe Harbor”

Forward-looking statements in this report are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may relate to, but are not limited to, information or assumptions about our sales and marketing strategy, sales (including pricing), income, operating income or gross margin improvements, working capital, cash flow, interest rates, impact of changes in accounting standards, future economic performance, management’s plans, goals and objectives for future operations, performance and growth or the assumptions relating to any of the forward-looking statements. 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” or other words and terms of similar meaning in conjunction with a discussion of future operating or financial performance. The Company cautions that forward-looking statements are not guarantees because there are inherent difficulties in predicting future results. Actual results could differ materially from those expressed or implied in the forward-looking statements. The factors listed under “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012, as well as any cautionary language in this report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

### Results of Operations

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

	Three Months Ended		Nine Months Ended					
	September 30,		September 30,					
	2013	2012	2013	2012				
Sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	78.0	%	77.5	%	77.8	%	77.5	%
Gross profit	22.0	%	22.5	%	22.2	%	22.5	%
Operating expenses:								
Salaries and commissions	8.0	%	7.8	%	8.1	%	7.8	%
Other operating expenses	6.9	%	6.5	%	6.6	%	6.6	%
Depreciation and amortization	0.8	%	0.8	%	0.8	%	0.8	%
Impairment of goodwill	7.9	%			2.6	%		
Total operating expenses:	23.6	%	15.0	%	18.1	%	15.1	%
Operating (loss) income	(1.6)	%	7.4	%	4.0	%	7.4	%
Interest expense	0.2	%	0.3	%	0.3	%	0.3	%
Income (loss) before income taxes	(1.9)	%	7.1	%	3.8	%	7.1	%
Income taxes	1.4	%	2.7	%	2.1	%	2.7	%
Net (loss) income	(3.3)	%	4.4	%	1.6	%	4.4	%

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





**Comparison of the Three Months Ended September 30, 2013 and 2012****Sales**

(Dollars in millions)	Three Months Ended September 30,		Change		
	2013	2012			
Sales	\$ 95.2	\$ 96.1	\$ (0.9)	(0.9)	%

Sales in the third quarter of 2013 decreased 0.9% to \$95.2 million from \$96.1 million in 2012. We estimate sales, when adjusted for metals, were up approximately 1% over the prior year period. Maintenance, Repair and Operations sales continued to increase, growing approximately 8%, due to higher branch activity levels. Project business in our long term growth initiatives encompassing Environmental Compliance, Engineering & Construction, Industrials, LifeGuard, Utility Power Generation, and Mechanical decreased approximately 17% as demand uncertainty continued to persist and projects were delayed.

**Gross Profit**

(Dollars in millions)	Three Months Ended September 30,		Change		
	2013	2012			
Gross profit	\$ 20.9	\$ 21.6	\$ (0.7)	(3.2)	%
Gross profit as a percent of sales	22.0 %	22.5 %	(0.5) %		

Gross profit decreased 3.2% to \$20.9 million in 2013 from \$21.6 million in 2012. The decrease in gross profit was primarily attributed to the lower gross margin (gross profit as a percentage of sales) which decreased to 22.0% in 2013 from 22.5% in 2012. This decrease is due to increased volume rebates to our customers related to additional rebate programs.

**Operating Expenses**

(Dollars in millions)	Three Months Ended September 30,		Change		
	2013	2012			
Operating expenses:					
Salaries and commissions	\$ 7.6	\$ 7.5	\$ 0.2	2.1	%
Other operating expenses	6.5	6.3	0.3	4.5	%
Depreciation and amortization	0.7	0.7		2.6	%
Impairment of goodwill	7.6		7.6	100	%
Total operating expenses	\$ 22.5	\$ 14.5	\$ 8.0	60.3	%
Operating expenses as a percent of sales	23.6 %	15.0 %	8.6 %		

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

Salaries and commissions increased \$0.2 million due to additional headcount primarily in operations and sales/marketing which was partially offset by lower commissions.

Other operating expenses increased \$0.3 million primarily due to increased group medical costs related to higher claims.

Depreciation and amortization remained consistent at \$0.7 million between the periods.

Impairment of goodwill relates to the Southern reporting unit. (see Note 3)

Operating expenses as a percentage of sales increased to 23.6% in 2013 from 15.0% in 2012. This increase was caused by the impairment of goodwill, as well as a slight decrease in sales commissions and higher group medical costs and salaries.

### **Interest Expense**

Interest expense decreased 31.7% due to lower average debt levels and a slightly lower average interest rate. Average debt was \$45.6 million in 2013 compared to \$62.6 million in 2012. The average effective interest rate decreased to 1.9% in 2013 from 2.0% in 2012.

**Income Taxes**

Income tax expense decreased \$1.2 million or 46.8% to \$1.4 million in 2013 compared to \$2.6 million in 2012. There was a pre-tax loss and income tax expense for the quarter ended September 30, 2013 due to the non-deductible portion of the goodwill impairment.

**Net Loss**

We incurred a net loss of \$3.2 million in 2013 compared to net income of \$4.2 million in 2012, a decrease of 174.7% primarily due to the goodwill impairment.

**Comparison of the Nine Months Ended September 30, 2013 and 2012****Sales**

(Dollars in millions)	Nine Months Ended September 30,		Change		
	2013	2012			
Sales	\$ 288.9	\$ 288.7	\$ 0.2	0.1	%

Sales in the nine month period ended September 30, 2013 were up slightly at \$288.9 million from \$288.7 million in the nine month period ended September 30, 2012. We estimate sales were up 3% when adjusted for metals. MRO business remained inconsistent by region, but was up 5% overall for the year to date period. Our project business encompassing our long term internal growth initiatives, Emission Controls, Engineering & Construction, Industrials, LifeGuard, Utility Power Generation, and Mechanical was down approximately 9%, primarily due to delays in project starts stemming from general market uncertainty.

**Gross Profit**

(Dollars in millions)	Nine Months Ended September 30,		Change		
	2013	2012			
Gross profit	\$ 64.0	\$ 65.0	\$ (1.0)	(1.5)	%
Gross profit as a percent of sales	22.2	22.5	(0.3)		%

Gross profit decreased 1.5% to \$64.0 million in 2013 from \$65.0 million in 2012. The decrease in gross profit was attributed to the decrease in gross margin (gross profit as a percentage of sales) which decreased to 22.2% in 2013 from 22.5% in 2012. This decrease is attributed to increased volume rebates to our customers due to additional rebate programs and to higher freight costs.

**Operating Expenses**

(Dollars in millions)	Nine Months Ended September 30,		Change		
	2013	2012			
Operating expenses:					
Salaries and commissions	\$ 23.4	\$ 22.4	\$ 1.0	4.4	%
Other operating expenses	19.1	18.9	0.2	1.1	%
Depreciation and amortization	2.2	2.2	0.1	2.3	%
Impairment of goodwill	7.6		7.6	100	%

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Total operating expenses	\$	52.3	\$	43.5	\$	8.8	20.3	%
Operating expenses as a percent of sales		18.1	%	15.1	%	3.0	%	

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

Salaries and commissions increased due to additional headcount primarily in sales and marketing which was partially offset by lower commissions.

Other operating expenses increased slightly due to warehouse related costs.

Depreciation and amortization remained consistent.

Impairment of goodwill relates to the Southern reporting unit. (See Note 3)

Operating expenses as a percentage of sales increased to 18.1% in 2013 from 15.1% in 2012 primarily due to the goodwill impairment recorded during the third quarter as well as increase in salaries and commissions.

### **Interest Expense**

Interest expense decreased 18.9% to \$0.8 million in 2013 from \$0.9 million in 2012 due to lower average debt levels and a slightly lower average interest rate. Average debt was \$53.3 million in 2013 compared to \$57.0 million in 2012. The average effective interest rate decreased to 1.9% in 2013 from 2.1% in 2012 due to a higher percentage of the borrowings at LIBOR, which is lower than the base interest rate of the loan.

### **Income Taxes**

Income tax expense decreased \$1.7 million or 21.5% to \$6.2 million in 2013 compared to \$7.9 million in 2012. The effective income tax rate increased to 56.6% in 2013 from 38.4% in 2012, primarily due to the non-deductible portion of the goodwill impairment.

### **Impact of Inflation and Commodity Prices**

Our results of operations are affected by changes in the inflation rate and commodity prices. Moreover, because copper, petrochemical, aluminum and steel products are components of the wire and cable and related hardware 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 could be adversely affected because of either reduced selling prices or lower of cost or market adjustments in the carrying value of our inventory. If we turn our inventory approximately four times a year, the impact of changes in commodity prices in any particular quarter would primarily affect the results of the succeeding calendar quarter. 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, dividend payments 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;
- payment of dividends;
- acquisitions; and
- the ability to attract long-term capital with satisfactory terms

### **Comparison of the Nine Months Ended September 30, 2013 and 2012**

Our net cash provided by operating activities was \$19.6 million in 2013 compared to net cash used in operating activities of \$11.6 million in 2012. Our net income decreased by \$7.9 million or 62.5% to \$4.8 million in 2013 from \$12.7 million in 2012 primarily due to the non-cash goodwill impairment charge.

Changes in our operating assets and liabilities resulted in cash provided by operating activities of \$5.4 million in 2013. Book overdraft, which is funded by our revolving credit facility as soon as the related vendor checks clear our disbursement account, increased \$4.0 million. Inventories decreased by \$4.0 million as the Company continued to improve its inventory profiles.

Partially offsetting these sources of cash was the reduction of accrued and other current liabilities of \$2.6 million relating primarily to accrued wire purchases, volume rebates to our customers, payroll related accruals and prepayments for cable management orders which shipped in 2013.

Net cash used in investing activities was \$0.8 million in 2013 compared to \$0.7 million in 2012. The increase was primarily attributable to the purchase of machinery and equipment used in operations.

Net cash used in financing activities was \$19.1 million in 2013 compared to net cash provided by financing activities of \$12.4 million in 2012. Net payments on the revolver of \$14.1 million and the payment of dividends of \$5.5 million were the main components of financing activities in 2013.

#### *Indebtedness*

Our principal source of liquidity at September 30, 2013 was working capital of \$120.5 million compared to \$126.4 million at December 31, 2012. We also had additional available borrowing capacity of approximately \$52.6 million at September 30, 2013 and \$41.4 million at December 31, 2012 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, continue to fund our dividend payments, 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*

On September 30, 2011, we entered into a Third Amended and Restated Loan and Security Agreement (the “2011 Loan Agreement”) with certain lenders and Bank of America, N.A., as agent. The 2011 Loan Agreement provides for a \$100 million revolving credit facility and expires on September 30, 2016. Availability under the 2011 Loan Agreement is limited to a borrowing base equal to 85% of the value of eligible accounts receivable, plus 65% of the value of eligible inventory, less certain reserves. The 2011 Loan Agreement is secured by a lien on substantially all our property, other than real estate.

Portions of the loan under the 2011 Loan Agreement 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 125 to 200 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. Additionally, we are obligated to pay an unused facility fee on the unused portion of the loan commitment. Unused commitment fees are 25 or 30 basis points, depending on the amount of the unused commitment.

Covenants in the 2011 Loan Agreement require us to maintain certain minimum financial ratios and availability levels. Repaid amounts can be re-borrowed subject to the borrowing base. As of September 30, 2013, we were in compliance with all financial covenants.

#### **Contractual Obligations**

The following table summarizes our loan commitment at September 30, 2013:

In thousands	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
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Total debt	\$	44,525	\$	\$	44,525	\$	\$
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There were no material changes in operating lease obligations or non-cancellable purchase obligations since December 31, 2012.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

There were no material changes to our market risk as set forth in Items 7A and 7 of our Annual Report on Form 10-K for the year ended December 31, 2012.



**Item 4. Controls and Procedures**

As of September 30, 2013, an evaluation was performed by the Company's management, under the supervision and with the participation of the Company's chief executive officer and chief financial officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective. There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II. Other Information**

**Item 1 Not applicable and has been omitted.**

**Item 1A. Risk Factors**

There were no material changes in the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 2 Not applicable and has been omitted.**

**Item 3 Not applicable and has been omitted.**

**Item 4 Not applicable and has been omitted.**

**Item 5 Not applicable and has been omitted.**

**Item 6. Exhibits**

**(a) Exhibits required by Item 601 of Regulation S-K.**

Exhibit Number	Document Description
31.1	Certification by James L. Pokluda III pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Nicol G. Graham pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by James L. Pokluda III and Nicol G. Graham pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Signature**

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

Date: November 12, 2013

**HOUSTON WIRE & CABLE COMPANY**

BY: /s/ Nicol G. Graham  
Nicol G. Graham, Chief Financial Officer

**EXHIBIT INDEX**

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