

Houston Wire & Cable CO
Form 10-Q
November 09, 2011

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, 2011

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

Edgar Filing: Houston Wire & Cable CO - Form 10-Q

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, 2011 there were 17,766,763 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, 2011

INDEX

| | | |
|--|---|----|
| PART I. FINANCIAL INFORMATION | | |
| Item 1. Financial Statements (Unaudited) | | |
| Consolidated Balance Sheets | | 2 |
| Consolidated Statements of Income | | 3 |
| Consolidated Statements of Cash Flows | | 4 |
| Notes to Consolidated Financial Statements | | 5 |
| Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations | | 8 |
| Overview | | 8 |
| Results of Operations | | 10 |
| Impact of Inflation and Commodity Prices | | 13 |
| Liquidity and Capital Resources | | 13 |
| Contractual Obligations | | 14 |
| Cautionary Statement for Purposes of the “Safe Harbor” | | 15 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | | 15 |
| Item 4. Controls and Procedures | | 15 |
| PART II. OTHER INFORMATION | | |
| Item 1. | Legal Proceedings | 15 |
| Item 1A. | Risk Factors | 15 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 15 |
| Item 3. | Defaults Upon Senior Securities | 15 |
| Item 4. | (Removed and reserved) | 16 |
| Item 5. | Other Information | 16 |
| Item 6. | Exhibits | 16 |
| Signature Page | | 17 |

HOUSTON WIRE & CABLE COMPANY
Consolidated Balance Sheets
(In thousands, except share data)

| | September 30, 2011 (unaudited) | December 31, 2010 |
|---|--------------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Accounts receivable, net | \$ 69,959 | \$ 67,838 |
| Inventories, net | 73,787 | 67,503 |
| Deferred income taxes | 3,765 | 2,399 |
| Income taxes | 548 | 0 |
| Prepays | 1,106 | 763 |
| Total current assets | 149,165 | 138,503 |
| Property and equipment, net | 6,189 | 6,255 |
| Intangible assets, net | 14,133 | 15,557 |
| Goodwill | 25,082 | 25,082 |
| Other assets | 159 | 93 |
| Total assets | \$ 194,728 | \$ 185,490 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Book overdraft | \$ 2,530 | \$ 3,055 |
| Trade accounts payable | 13,528 | 19,987 |
| Accrued and other current liabilities | 18,054 | 19,781 |
| Income taxes | 0 | 1,036 |
| Total current liabilities | 34,112 | 43,859 |
| Debt | 61,200 | 54,825 |
| Other long term obligations | 131 | 141 |
| Deferred income taxes | 2,446 | 945 |
| Total liabilities | 97,889 | 99,770 |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized, none issued and outstanding | 0 | 0 |
| Common stock, \$0.001 par value; 100,000,000 shares authorized: 20,988,952 shares issued: 17,766,763 and 17,748,487 outstanding at September 30, 2011 and December 31, 2010, respectively | 21 | 21 |
| Additional paid-in-capital | 57,520 | 58,642 |
| Retained earnings | 92,128 | 80,187 |
| Treasury stock | (52,830) | (53,130) |
| Total stockholders' equity | 96,839 | 85,720 |
| Total liabilities and stockholders' equity | \$ 194,728 | \$ 185,490 |

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 | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Sales | \$ 105,782 | \$ 90,536 | \$ 308,929 | \$ 214,973 |
| Cost of sales | 82,776 | 72,962 | 239,951 | 172,139 |
| Gross profit | 23,006 | 17,574 | 68,978 | 42,834 |
| Operating expenses: | | | | |
| Salaries and commissions | 7,823 | 7,191 | 20,542 | 17,481 |
| Other operating expenses | 6,071 | 5,644 | 18,114 | 14,463 |
| Depreciation and amortization | 726 | 676 | 2,251 | 972 |
| Total operating expenses | 14,620 | 13,511 | 40,907 | 32,916 |
| Operating income | 8,386 | 4,063 | 28,071 | 9,918 |
| Interest expense | 371 | 318 | 1,099 | 466 |
| Income before income taxes | 8,015 | 3,745 | 26,972 | 9,452 |
| Income taxes | 3,050 | 1,512 | 10,347 | 3,737 |
| Net income | \$ 4,965 | \$ 2,233 | \$ 16,625 | \$ 5,715 |
| Earnings per share: | | | | |
| Basic | \$ 0.28 | \$ 0.13 | \$ 0.94 | \$ 0.32 |
| Diluted | \$ 0.28 | \$ 0.13 | \$ 0.93 | \$ 0.32 |
| Weighted average common shares outstanding: | | | | |
| Basic | 17,685,211 | 17,660,056 | 17,677,514 | 17,656,129 |
| Diluted | 17,814,181 | 17,697,927 | 17,802,726 | 17,705,641 |
| Dividend declared per share | \$ 0.09 | \$ 0.085 | \$ 0.265 | \$ 0.255 |

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,
2011 2010

| | | |
|---|------------|------------|
| Operating activities | | |
| Net income | \$16,625 | \$5,715 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,251 | 972 |
| Amortization of capitalized loan costs | 61 | 28 |
| Amortization of unearned stock compensation | (968) | 1,706 |
| Provision for doubtful accounts | 41 | 75 |
| Provision for returns and allowances | 108 | (210) |
| Provision for inventory obsolescence | 778 | 595 |
| Gain on disposal of property and equipment | 0 | (8) |
| Deferred income taxes | 135 | (721) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (2,270) | (7,494) |
| Inventories | (7,062) | 3,495 |
| Prepays | (343) | 2,773 |
| Other assets | (139) | 140 |
| Book overdraft | (525) | 85 |
| Trade accounts payable | (6,459) | 6,319 |
| Accrued and other current liabilities | (1,384) | 3,339 |
| Income taxes | (1,584) | (155) |
| Other long term obligations | (10) | 0 |
| Net cash provided by (used in) operating activities | (745) | 16,654 |
| Investing activities | | |
| Expenditures for property and equipment | (749) | (374) |
| Proceeds from disposal of property and equipment | 0 | 20 |
| Cash paid for acquisition | (343) | (50,000) |
| Net cash used in investing activities | (1,092) | (50,354) |
| Financing activities | | |
| Borrowings on revolver | 317,572 | 253,392 |
| Payments on revolver | (311,197) | (215,231) |
| Purchase of treasury stock | (3) | 0 |
| Proceeds from exercise of stock options | 112 | 36 |
| Excess tax benefit for stock options | 37 | 5 |
| Payment of dividends | (4,684) | (4,502) |
| Net cash provided by financing activities | 1,837 | 33,700 |
| Net change in cash | 0 | 0 |

Edgar Filing: Houston Wire & Cable CO - Form 10-Q

| | | |
|-----------------------------|-----|-----|
| Cash at beginning of period | 0 | 0 |
| Cash at end of period | \$0 | \$0 |

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 and related services to the U.S. market through nineteen locations in twelve states throughout the United States. The Company has no other business activity.

The consolidated financial statements as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 have been prepared in accordance with U.S. generally accepted accounting principles (“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. 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 in 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, 2010 filed with the SEC.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board issued guidance on testing goodwill for impairment. The new guidance provides an entity the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that this is the case, it is required to perform the currently prescribed two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized for that reporting unit (if any). If an entity determines that the fair value of a reporting unit is not less than its carrying amount, the two-step goodwill impairment test is not required. The new guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted. The Company is evaluating this new guidance and does not expect that the adoption will have an effect on the consolidated financial statements.

2. Earnings per Share

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

Edgar Filing: Houston Wire & Cable CO - Form 10-Q

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Denominator: | | | | |
| Weighted average common shares for basic earnings per share | 17,685,211 | 17,660,056 | 17,677,514 | 17,656,129 |
| Effect of dilutive securities | 128,970 | 37,871 | 125,212 | 49,512 |
| Weighted average common shares for diluted earnings per share | 17,814,181 | 17,697,927 | 17,802,726 | 17,705,641 |

The weighted average common shares for diluted earnings per share exclude stock options to purchase 802,500 and 921,071 shares for the three months ended September 30, 2011 and 2010, respectively, and 802,500 and 864,524 shares for the nine months ended September 30, 2011 and 2010, respectively. These options have been excluded from the calculation of diluted securities, as including them would have an anti-dilutive effect on earnings per share for the respective periods.

3. Business Combination

On June 25, 2010, the Company completed the acquisition of Southwest Wire Rope LP (“SWWR”), its general partner Southwest Wire Rope GP LLC (“GP”) and SWWR’s wholly owned subsidiary, Southern Wire (“SW”) (collectively “the acquired companies”, or “the acquisition”), from Teleflex Incorporated. The acquisition was accounted for in accordance with Accounting Standards Codification (“ASC”) Topic 805, Business Combinations. Accordingly, the total purchase price was allocated to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The SWWR and SW businesses provide mechanical wire rope and related hardware to the industrial market; GP’s sole activity was to serve as the general partner of SWWR. Under the terms of the acquisition agreement, the purchase price was \$50 million, subject to an adjustment based on the net working capital of the acquired companies as of the date of closing. The adjustment was \$1.5 million making the total purchase price \$51.5 million, of which \$51.2 million was paid in 2010. The Company has elected to treat the acquisition as a stock purchase for tax purposes. The amount of goodwill deductible for tax purposes is \$5,993. The acquisition was funded from the Company’s loan agreement. This acquisition expanded the Company’s product offerings to the industrial marketplace that purchases its electrical wire and cable products.

Intangible assets, from the acquisition, consist of customer relationships - \$11,630, trade names - \$4,610, and non-compete agreements - \$250. Customer relationships are being amortized over 7 year or 6 year useful lives and non-compete agreements were amortized over a 1 year useful life. The weighted average amortization period for intangible assets is 6.6 years. Trade names are not amortized. As of September 30, 2011, accumulated amortization on the acquired intangible assets was \$2,357, including amortization expense of \$426 and \$1,424 for the three months and nine months ended September 30, 2011, respectively. Amortization expense to be recognized on the acquired intangible assets is expected to be as follows:

| | Annual Amortization Expense |
|------|-----------------------------------|
| 2012 | \$ 1,758 |
| 2013 | 1,733 |
| 2014 | 1,733 |
| 2015 | 1,733 |
| 2016 | 1,512 |
| 2017 | 646 |

Under ASC Topic 805-10, acquisition related costs (e.g. legal, valuation and advisory) were not included as a component of consideration paid, but were accounted for as expenses in the periods in which the costs were incurred.

4. 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 Bank of America, N.A., as agent and lender, and the Company as guarantor executed a Second Amended and Restated Guaranty of the borrower’s obligations thereunder. The 2011 Loan Agreement provides a \$100 million revolving credit facility, bears interest at the agent’s base rate, with

a LIBOR rate 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. Remaining availability under the 2011 Loan Agreement at September 30, 2011 was \$35.1 million and is calculated as a percentage of qualifying accounts receivable and inventory. The Company was in compliance with the financial covenants governing its indebtedness at September 30, 2011.

5. Stockholders' Equity

In 2007, the Board of Directors approved a stock repurchase program, where the Company is authorized to purchase up to \$75 million of its outstanding shares of common stock, depending on market conditions, trading activity, business conditions and other factors. The program was scheduled to expire on December 31, 2009 but was initially extended through December 31, 2011 and on November 4, 2011 was further extended through December 31, 2012. Shares of stock purchased under the program are currently being held as treasury stock and may be issued upon the exercise of options, as restricted stock, to fund acquisitions, or for other uses as authorized by the Board of Directors. During the nine months ended September 30, 2011 and 2010, the Company did not repurchase any outstanding shares under this program.

During the first quarter of 2011, the Board of Directors approved a quarterly dividend of \$0.085 per share payable to stockholders. During the second quarter of 2011, the Board of Directors increased the quarterly dividend to \$0.09 per share. During the third quarter of 2011, the Board of Directors approved a quarterly dividend to \$0.09 per share. Dividends paid were \$4,684 and \$4,502 during the nine months ended September 30, 2011 and 2010, respectively.

6. Stock Based Compensation

Stock Option Awards

On May 7, 2010, at the Annual Meeting of Stockholders, the Company issued options under the 2006 Stock Plan, to purchase 5,000 shares of its common stock, to each non-employee director who was re-elected (other than the Chairman of the Board, who received an option to purchase 10,000 shares of the Company's common stock), for an aggregate of 35,000 shares. Each option has an exercise price equal to the fair market value of the Company's common stock at the close of trading on May 7, 2010, has a contractual life of ten years and vests one year after the date of grant.

There were no options granted during the first nine months of 2011.

Restricted Stock Awards and Restricted Stock Units

Following the Annual Meeting of Stockholders on May 3, 2011, the Company awarded restricted stock units with a value of \$50,000 to each non-employee director who was re-elected, for an aggregate of 18,204 restricted stock units. Each award of restricted stock units vests at the date of the 2012 Annual Meeting of Stockholders. Upon vesting, the non-employee directors are entitled to receive an equal number of shares of the Company's common stock, together with dividend equivalents from the date of grant, at such time as the director's service on the Board of Directors terminates for any reason.

On March 11, 2011, the Company granted 2,500 shares of restricted stock under the 2006 Plan in connection with the promotion of a member of the management team. These shares vest in five equal annual installments on the first five anniversaries of the date of the grant, as long as the recipient is then employed by the Company. Any dividends declared will be accrued and paid to the recipient when the related shares vest.

Restricted common shares, under fixed plan accounting, are measured at fair value on the date of grant based on the number of shares granted, estimated forfeitures and 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.

Total share-based compensation (benefit)/cost was \$257 and \$568 for the three months ended September 30, 2011 and 2010, respectively, and \$(968) and \$1,706 for the nine months ended September 30, 2011 and 2010, respectively. Total income tax (expense)/benefit recognized for stock-based compensation arrangements was \$98 and \$229 for the three months ended September 30, 2011 and 2010, and \$(375) and \$673 for the nine months ended September 30, 2011 and 2010, respectively. The credit for share-based compensation for the nine months ended September 30, 2011, is due to the reversal of \$2.0 million of compensation expense in the second quarter (of which \$1.7 million was recognized prior to January 1, 2011). This reversal resulted from a change in the estimated forfeiture rate from 0% to 100% of non-vested options previously awarded to the Chief Executive Officer, who is leaving the Company effective December 31, 2011.

7. Commitments and Contingencies

As part of the June 2010 acquisition, the Company assumed the liability for the post-remediation monitoring of the water quality at one of the acquired facilities in Louisiana. The liability, estimated at \$131 as of September 30, 2011, relates entirely to the cost of the monitoring, which the Company estimates will be incurred over approximately the next six years, and the cost to plug the wells. Remediation work was completed prior to the acquisition in accordance with the requirements of the Louisiana Commission 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 has applied to these claims. To date, all costs associated with these claims have been covered by the applicable insurance policies and all defense of these claims has been handled by the applicable insurance companies. 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 wire and 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.

8. Subsequent Events

On November 4, 2011, the Board of Directors approved a dividend on the shares of common stock of the Company in the amount of \$0.09 per share, payable on November 25, 2011, to stockholders of record at the close of business on November 14, 2011 and extended the stock repurchase program through December 31, 2012.

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, 2010.

Overview

We are one of the largest distributors of wire and cable and related services in the U.S. industrial distribution 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

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 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.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts receivable for estimated losses resulting from the inability of our customers to make required payments. We perform periodic credit evaluations of our customers and typically do not require collateral. Consistent with industry practices, we require payment from most customers within 30 days of invoice date. We have an estimation procedure, based on historical data, current economic conditions and recent changes in the aging of these receivables, which we use to record reserves throughout the year. In the last five years, write-offs against our allowance for doubtful accounts have averaged \$0.1 million per year. A 20% change in our estimate at September 30, 2011 would have resulted in a change in income before income taxes of \$0.1 million.

Reserve for Returns and Allowances

We estimate the gross profit impact of returns and allowances for previously recorded sales. This reserve is calculated on historical and statistical returns and allowances data and adjusted as trends in the variables change. A 20% change

in our estimate at September 30, 2011 would have resulted in a change in income before income taxes of \$0.1 million.

8

Inventories

Inventories are valued at the lower of cost, using the average cost method, or market. We continually monitor our inventory levels at each of our distribution centers. Our reserve for inventory obsolescence is based on the age of the inventory, movements of our inventory over the prior twelve months and the experience of our purchasing and sales departments in estimating demand for the product in the succeeding year. Our inventories are generally not susceptible to technological obsolescence. A 20% change in our estimate at September 30, 2011 would have resulted in a change in income before income taxes of \$0.7 million.

Intangible Assets

The Company's intangible assets, excluding goodwill, represent purchased trade names, customer relationships, and non-compete agreements. Trade names are not being amortized and are treated as indefinite lived assets. Trade names are tested for recoverability on an annual basis in October of each year. This test was performed in October 2010 and no impairment was deemed necessary. The Company assigns useful lives to its amortizable intangible assets based on the periods over which it expects the assets to contribute directly or indirectly to the future cash flows of the Company. Customer relationships are being amortized over 7 year or 6 year useful lives and non-compete agreements are being amortized over a 1 year useful life. 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.

Vendor Rebates

Many of our arrangements with our vendors entitle us to receive a rebate of a specified amount when we achieve any of a number of measures, generally related to the volume of purchases from the vendor. We account for these rebates as a reduction of the prices of the vendor's products and therefore as a reduction of inventory until we sell the product, at which time these rebates reduce cost of sales. Throughout the year, we estimate the amount of rebates earned based on our estimate of purchases to date relative to the purchase levels that mark our progress toward earning the rebates. We continually revise these estimates to reflect actual rebates earned based on actual purchase levels and all estimated rebate amounts are reconciled. A 20% change in our estimate of total rebates earned during the nine months ended September 30, 2011 would have resulted in a change in income before income taxes of \$1.1 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. At September 30, 2011, our goodwill balance was \$25.1 million, representing 12.9% of our total assets.

We test goodwill for impairment annually, or more frequently if indications of possible impairment exist, by applying a fair value-based test. In October 2011, we began our annual goodwill impairment test which is still in process. If this test indicates that our fair market value has fallen below book value, we will compare the estimated fair value of the goodwill to its carrying value. If the carrying value of goodwill exceeds the estimated fair value of goodwill, we will recognize the difference as an impairment loss in operating income.

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 September 30, | | | | Nine Months Ended September 30, | | | |
|-------------------------------|-------------------------------------|---|-------|---|------------------------------------|---|-------|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| Sales | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Cost of sales | 78.3 | % | 80.6 | % | 77.7 | % | 80.1 | % |
| Gross profit | 21.7 | % | 19.4 | % | 22.3 | % | 19.9 | % |
| Operating expenses: | | | | | | | | |
| Salaries and commissions | 7.4 | % | 7.9 | % | 6.6 | % | 8.1 | % |
| Other operating expenses | 5.7 | % | 6.2 | % | 5.9 | % | 6.7 | % |
| Depreciation and amortization | 0.7 | % | 0.7 | % | 0.7 | % | 0.5 | % |
| Total operating expenses: | 13.8 | % | 14.9 | % | 13.2 | % | 15.3 | % |
| Operating income | 7.9 | % | 4.5 | % | 9.1 | % | 4.6 | % |
| Interest expense | 0.4 | % | 0.4 | % | 0.4 | % | 0.2 | % |
| Income before income taxes | 7.6 | % | 4.1 | % | 8.7 | % | 4.4 | % |
| Income taxes | 2.9 | % | 1.7 | % | 3.3 | % | 1.7 | % |
| Net income | 4.7 | % | 2.5 | % | 5.4 | % | 2.7 | % |

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

Comparison of the Three Months Ended September 30, 2011 and 2010

Sales

| (Dollars in millions) | Three Months Ended September 30, | | | Change |
|-----------------------|-------------------------------------|---------|---------|--------|
| | 2011 | 2010 | | |
| Sales | \$ 105.8 | \$ 90.5 | \$ 15.2 | 16.8 % |

Sales in the third quarter of 2011 increased 16.8% to \$105.8 million from \$90.5 million in the third quarter of 2010. The third quarter of 2011 represents the first full quarter in which sales for the businesses acquired in June of 2010 were recognized on a year-over-year period. Project activity within our five long term internal growth initiatives encompassing Emission Controls, Engineering & Construction, Industrials, LifeGuard™ (and other private branded products) and Utility Power Generation was up approximately 50% due to improved economic conditions and previously booked backlog demand. Repair and Replacement, also referred to as Maintenance, Repair and Operations (“MRO”) sales increased approximately 3%.

Gross Profit

Edgar Filing: Houston Wire & Cable CO - Form 10-Q

| (Dollars in millions) | 2011 | | 2010 | | Three Months Ended September 30, | | Change | |
|------------------------------------|------|--------|------|--------|-------------------------------------|-------|--------|---|
| Gross profit | \$ | 23.0 | \$ | 17.6 | \$ | 5.4 | 30.9 | % |
| Gross profit as a percent of sales | | 21.7 % | | 19.4 % | | 2.3 % | | |

10

Gross profit increased 30.9% to \$23.0 million in 2011 from \$17.6 million in 2010. The increase in gross profit was primarily attributed to the increase in sales. Gross profit as a percentage of sales (gross margin) increased to 21.7% in 2011 from 19.4% in 2010 due to a better macroeconomic business environment which allowed for better pricing and increased purchase discounts from our vendors.

Operating Expenses

| (Dollars in millions) | Three Months Ended | | | Change |
|---|--------------------|----------------|----------------|--------------|
| | 2011 | 2010 | September 30, | |
| Operating expenses: | | | | |
| Salaries and commissions | \$ 7.8 | \$ 7.2 | \$ 0.6 | 8.8 % |
| Other operating expenses | 6.1 | 5.6 | 0.4 | 7.6 % |
| Depreciation and amortization | 0.7 | 0.7 | 0.1 | 7.4 % |
| Total operating expenses | \$ 14.6 | \$ 13.5 | \$ 1.1 | 8.2 % |
| Operating expenses as a percent of sales | 13.8 % | 14.9 % | (1.1)% | |

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

Salaries and commissions primarily increased due to commissions associated with higher sales volumes and related profitability and additional labor incurred for the system integration of approximately \$0.2 million.

Other operating expenses primarily increased due to health care costs associated with higher claims, of \$0.4 million, and the increased operational expenses associated with higher sales.

The depreciation and amortization increase is primarily attributable to the depreciation of fixed assets purchased during the year.

Operating expenses as a percentage of sales decreased to 13.8% in 2011 from 14.9% in 2010. This decrease is attributed to the ongoing cost control initiatives and operating leverage from the increased sales.

Interest Expense

Interest expense increased 16.7% to \$0.4 million in 2011 from \$0.3 million in 2010 due to higher debt levels and a slightly higher effective interest rate. The debt level increased to fund the increased working capital needs due to higher sales. Average debt was \$61.9 million in 2011 compared to \$57.1 million in 2010. The average effective interest rate increased slightly to 2.3% in 2011 from 2.1% in 2010.

Income Taxes

Income tax expense increased 101.7% to \$3.1 million in 2011 from \$1.5 million in 2010 as our income before taxes increased 114.0%. The effective income tax rate decreased to 38.1% in 2011 from 40.4% in 2010 primarily due to the impact of non-deductible acquisition expenses and other non-deductible expenses in 2010.

Net Income

We achieved net income of \$5.0 million in 2011 compared to \$2.2 million in 2010, an increase of 122.3%.

Edgar Filing: Houston Wire & Cable CO - Form 10-Q

Comparison of the Nine Months Ended September 30, 2011 and 2010

Sales

| (Dollars in millions) | 2011 | Nine Months Ended September 30, 2010 | | Change | |
|-----------------------|----------|--|---------|--------|---|
| Sales | \$ 308.9 | \$ 215.0 | \$ 94.0 | 43.7 | % |

Sales in the nine month period ended September 30, 2011 increased 43.7% to \$308.9 million from \$215.0 million in the nine month period ended September 30, 2010. The primary reasons for this increase were \$34.7 million in increased sales recognized in 2011 from the businesses acquired in June 2010 and a 30.7% increase in organic sales. Continued broad market recovery increased demand in our core business sectors. Project activity within our five long term internal growth initiatives encompassing Emission Controls, Engineering & Construction, Industrials, LifeGuard™ (and other private branded products) and Utility Power Generation was up approximately 50% due to improving economic conditions and previously booked backlog demand. Legacy MRO sales increased approximately 10%-15% primarily as a result of the stronger economy and the release of formerly delayed work during the prior year period. We estimate MRO sales for mechanical wire and cable were down slightly as soft demand and slow recovery of the offshore drilling market more than offset the revenue growth and market share gains achieved in onshore markets.

Gross Profit

| (Dollars in millions) | Nine Months Ended September 30, | | | | |
|------------------------------------|------------------------------------|---------|---------|------|---|
| | 2011 | 2010 | Change | | |
| Gross profit | \$ 69.0 | \$ 42.8 | \$ 26.1 | 61.0 | % |
| Gross profit as a percent of sales | 22.3 % | 19.9 % | 2.4 % | | |

Gross profit increased 61.0% to \$69.0 million in 2011 from \$42.8 million in 2010. The increase in gross profit was attributed to an increase in our pre-acquisition business and the contribution from the acquired operations. Gross margin increased to 22.3% in 2011 from 19.9% in 2010 due to a better macroeconomic business environment which allowed a higher gross margin on our products and increased purchase discounts.

Operating Expenses

| (Dollars in millions) | Nine Months Ended September 30, | | | | |
|--|------------------------------------|---------|---------|-------|---|
| | 2011 | 2010 | Change | | |
| Operating expenses: | | | | | |
| Salaries and commissions | \$ 20.5 | \$ 17.5 | \$ 3.1 | 17.5 | % |
| Other operating expenses | 18.1 | 14.5 | 3.7 | 25.2 | % |
| Depreciation and amortization | 2.3 | 1.0 | 1.3 | 131.6 | % |
| Total operating expenses | \$ 40.9 | \$ 32.9 | \$ 8.0 | 24.3 | % |
| Operating expenses as a percent of sales | 13.2 % | 15.3 % | (2.1)% | | |

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

Salaries and commissions increased primarily due to the additional personnel from the acquisition and increases in commissions associated with higher organic sales volumes and related profitability. This increase was partially offset by a one time reversal of \$2.0 million of salary expense including \$1.7 million recorded prior to January 1, 2011 attributed to the change in the estimated forfeiture rate to 100% of non-vested options previously awarded to the Chief Executive Officer, who is leaving the Company effective December 31, 2011.

Other operating expenses increased primarily due to the additional operations obtained from the acquisition and increased operational expenses associated with higher sales.

The depreciation and amortization increase is primarily attributable to the assets acquired in the acquisition.

Operating expenses as a percentage of sales decreased to 13.2% in 2011 from 15.3% in 2010. This decrease is attributed to the reversal of salary expense, ongoing cost control initiatives and operating leverage from our legacy business, partially offset by the acquisition.

Interest Expense

Interest expense increased 135.8% to \$1.1 million in 2011 from \$0.5 million in 2010 due to higher debt levels resulting from borrowings to fund the entire purchase price of the acquisition and the increase in working capital. Average debt was \$60.4 million in 2011 compared to \$26.4 million in 2010. The average effective interest rate increased slightly to 2.3% in 2011 from 2.2% in 2010.

Income Taxes

Income tax expense increased 176.9% to \$10.3 million in 2011 from \$3.7 million in 2010 as our income before taxes increased 185.4%. The effective income tax rate decreased to 38.4% in 2011 from 39.5% in 2010 primarily due to the impact of non-deductible acquisition expenses and other non-deductible expenses in 2010.

Net Income

We achieved net income of \$16.6 million in 2011 compared to \$5.7 million in 2010, an increase of 190.9%.

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 and petrochemical products are components of the wire and cable we sell, fluctuations in the costs of these and other commodities have historically affected our operating results. To the extent we are unable to pass on to our customers cost increases due to inflation or rising commodity prices, it could adversely affect our operating results. To the extent commodity prices decline, the net realizable value of our existing inventory could be reduced, and our gross profits could be adversely affected. If we were to turn our inventory approximately four times a year, the impact of severe fluctuations in copper and steel prices would primarily affect the results of the succeeding calendar quarter.

Liquidity and Capital Resources

Our primary capital needs are for working capital obligations, dividend payments, the stock repurchase program and other general corporate purposes, including acquisitions and capital expenditures. 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;
- the ability to attract long-term capital with satisfactory terms;
 - additional stock repurchases;
 - cash flows generated from operating activities;
 - payment of dividends;
 - capital expenditures; and
 - acquisitions.

Comparison of the Nine Months Ended September 30, 2011 and 2010

Our net cash used in operating activities was \$0.7 million in 2011 compared to cash provided by operating activities of \$16.7 million in 2010. Our net income increased by \$10.9 million or 190.9% to \$16.6 million in 2011 from \$5.7 million in 2010.

Changes in our operating assets and liabilities resulted in cash used in operating activities of \$19.8 million in 2011. Inventories increased \$7.1 million in order to support increased and anticipated sales activity. Trade accounts payable decreased \$6.5 million primarily due to payment in early 2011 of \$4.9 million of vendor invoices under dispute at December 31, 2010. The increase in accounts receivable of \$2.3 million was a result of increased sales, which was partially offset by the receipt of an amount outstanding since 2009 due to a product dispute. Income taxes payable decreased by \$1.6 million due to federal and state tax payments.

Net cash used in investing activities was \$1.1 million in 2011 compared to \$50.4 million in 2010. Cash paid for acquisition decreased from \$50.0 million in 2010 to the \$0.3 million final payment made in 2011. Expenditures for property and equipment increased from \$0.4 million in 2010 to \$0.7 million in 2011 primarily due to expenditures made by the acquired business.

Net cash provided by financing activities was \$1.8 million in 2011 compared to \$33.7 million in 2010. Net borrowings on the revolver of \$6.4 million and the payment of dividends of \$4.7 million were the main components of financing activities in 2011.

Indebtedness

Our principal source of liquidity at September 30, 2011 was working capital of \$115.1 million compared to \$94.6 million at December 31, 2010. We also had available borrowing capacity of approximately \$35.1 million at September 30, 2011 and \$20.2 million at December 31, 2010 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 the stock repurchase program, 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 further suitable acquisition opportunities or working capital needs arise that would require increased financing, we believe that our financial position and earnings history provide a solid base for obtaining such financing resources at competitive rates and terms. Additionally, based on market conditions, we may issue more shares of common or preferred stock to raise funds.

Loan and Security Agreement

We have a Loan Agreement with Bank of America, N.A., as agent, that provides for a \$100 million revolving credit facility. Availability under the Loan Agreement is calculated as a percentage of qualifying accounts receivable and inventory. We were in compliance with the financial covenants governing its indebtedness at September 30, 2011.

The 2011 Loan Agreement amends and restates our previous loan and security agreement. 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. At September 30, 2011, the borrowing base under this formula was \$96.3 million of which \$61.2 million was outstanding. The 2011 Loan Agreement expires on September 30, 2016. Borrowings under the 2011 Loan Agreement bear interest at the British Bankers Association LIBOR Rate plus 125 to 200 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 30-day LIBOR plus 150 basis points, if a Base Rate loan. Unused commitment fees are 25 or 30 basis points, depending on the amount of the unused commitment. The 2011 Loan Agreement is secured by a lien on substantially all our property, other than real estate.

Contractual Obligations

The following table summarizes our loan commitment at September 30, 2011:

| | Total | Less than 1 year | 1-3 years (In thousands) | 3-5 years | More Than 5 years |
|------------|--------|---------------------|-----------------------------|-----------|-------------------------|
| Total debt | \$61.2 | \$0 | \$0 | \$61.2 | \$0 |

There were no new material changes in operating lease obligations or non-cancellable purchase obligations since December 31, 2010.

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 r 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, 2010, 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.

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, 2010.

Item 4. Controls and Procedures

As of September 30, 2011, 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, 2011 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, 2010.

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

The following table provides information about our purchases of common stock for the three months ended September 30, 2011 pursuant to the Company’s stock repurchase program.

| Period | Total number of shares | Average price paid per | Total number of shares | Maximum dollar value |
|--------|------------------------|------------------------|------------------------|----------------------|
|--------|------------------------|------------------------|------------------------|----------------------|

Edgar Filing: Houston Wire & Cable CO - Form 10-Q

| | purchased | share | purchased as part of publicly announced plans or programs (1) | that may yet be used for purchases under the plan |
|------------------------|------------|-----------------|---|---|
| July 1 – 31, 2011 | 0 | \$ 0 | 0 | \$ 19,385,303 |
| August 1 – 31, 2011(2) | 210 | 14.89 | 210 | 19,385,303 |
| September 1 – 30, 2011 | 0 | 0 | 0 | \$ 19,385,303 |
| Total | 210 | \$ 14.89 | 210 | |

(1) The Board of Directors authorized a stock repurchase program of \$30 million in August 2007. This amount was increased to \$50 million in September 2007 and to \$75 million effective January 2008. There were no purchases made under the Company's stock repurchase program in the third quarter of 2011.

(2) 210 shares were purchased in August 2011 at \$14.89 per share. These shares were surrendered by the holder to pay taxes upon the vesting of a restricted stock award.

Item 3 – Not applicable and has been omitted.

Item 4 – (Removed and reserved)

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 Charles A. Sorrentino 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 Charles A. Sorrentino 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 9, 2011

HOUSTON WIRE & CABLE COMPANY

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

EXHIBIT INDEX

| Exhibit Number | Document Description |
|----------------|--|
| 31.1 | Certification by Charles A. Sorrentino 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 Charles A. Sorrentino 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. |