

WESCO INTERNATIONAL INC

Form 10-Q

November 06, 2009

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**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, 2009**

**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 001-14989**

**WESCO International, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**25-1723342**

(IRS Employer Identification No.)

**225 West Station Square Drive  
Suite 700**

**Pittsburgh, Pennsylvania 15219**

(Address of principal executive offices)

**(412) 454-2200**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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 at least the past 90 days. Yes  No

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 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

*(Do not check if a smaller reporting company)*

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

As of November 2, 2009, WESCO International, Inc. had 42,278,665 shares of common stock outstanding.

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**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**  
**QUARTERLY REPORT ON FORM 10-Q**  
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**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(unaudited)

|   | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---|-----------------------------------|----------------------------------|
| <i>Amounts in thousands, except share data</i>  |                                   |                                  |
| <b>Assets</b>   |                                   |                                  |
| <b>Current Assets:</b>  |                                   |                                  |
| Cash and cash equivalents   | \$ 111,345                        | \$ 86,338                        |
| Trade accounts receivable, net of allowance for doubtful accounts of \$22,414 and \$19,665 in 2009 and 2008, respectively | 663,433                           | 791,356                          |
| Other accounts receivable   | 46,851                            | 42,758                           |
| Inventories, net  | 495,301                           | 605,678                          |
| Current deferred income taxes   | 2,871                             | 2,857                            |
| Income taxes receivable   | 24,299                            | 18,661                           |
| Prepaid expenses and other current assets   | 13,748                            | 10,015                           |
| <b>Total current assets</b>   | <b>1,357,848</b>                  | <b>1,557,663</b>                 |
| Property, buildings and equipment, net  | 117,705                           | 119,223                          |
| Intangible assets, net  | 83,146                            | 88,689                           |
| Goodwill  | 863,339                           | 862,778                          |
| Investment in subsidiary  | 44,540                            | 46,251                           |
| Deferred income taxes   | 18,469                            | 16,811                           |
| Other assets  | 13,690                            | 28,446                           |
| <b>Total assets</b>   | <b>\$ 2,498,737</b>               | <b>\$ 2,719,861</b>              |
| <b>Liabilities and Stockholders Equity</b>  |                                   |                                  |
| <b>Current Liabilities:</b>   |                                   |                                  |
| Accounts payable  | \$ 494,845                        | \$ 556,502                       |
| Accrued payroll and benefit costs   | 28,691                            | 49,753                           |
| Short-term debt   |                                   | 295,000                          |
| Current portion of long-term debt   | 3,897                             | 3,823                            |
| Bank overdrafts   | 19,245                            | 30,367                           |
| Current deferred income taxes   | 1,705                             | 1,516                            |
| Other current liabilities   | 60,842                            | 69,048                           |
| <b>Total current liabilities</b>  | <b>609,225</b>                    | <b>1,006,009</b>                 |
| Long-term debt, net of discount of \$183,942 and \$40,501 in 2009 and 2008, respectively                                  | 701,047                           | 801,427                          |
| Deferred income taxes   | 199,411                           | 136,736                          |
| Other noncurrent liabilities  | 27,643                            | 20,585                           |

|   |              |              |
|---|--------------|--------------|
| Total liabilities   | \$ 1,537,326 | \$ 1,964,757 |
| Commitments and contingencies   |              |              |
| <b>Stockholders Equity:</b>   |              |              |
| Preferred stock, \$.01 par value; 20,000,000 shares authorized, no shares issued or outstanding   |              |              |
| Common stock, \$.01 par value; 210,000,000 shares authorized, 55,828,790 and 55,788,620 shares issued and 42,278,994 and 42,239,962 shares outstanding in 2009 and 2008, respectively | 558          | 557          |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2009 and 2008, respectively                  | 43           | 43           |
| Additional capital  | 987,621      | 886,019      |
| Retained earnings   | 560,446      | 477,111      |
| Treasury stock, at cost; 17,889,227 and 17,888,089 shares in 2009 and 2008, respectively  | (590,319)    | (590,288)    |
| Accumulated other comprehensive income  | 3,062        | (18,338)     |
| Total stockholders equity   | 961,411      | 755,104      |
| Total liabilities and stockholders equity   | \$ 2,498,737 | \$ 2,719,861 |

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

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**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(unaudited)

| <i>Amounts in thousands, except per share data</i>                 | <b>Three Months Ended</b> |                            | <b>Nine Months Ended</b> |                            |
|--|---------------------------|----------------------------|--------------------------|----------------------------|
|  | <b>September 30,</b>      |                            | <b>September 30,</b>     |                            |
|  | <b>2009</b>               | <b>2008 <sup>(1)</sup></b> | <b>2009</b>              | <b>2008 <sup>(1)</sup></b> |
| Net sales  | \$ 1,152,427              | \$ 1,628,087               | \$ 3,491,232             | \$ 4,681,046               |
| Cost of goods sold (excluding depreciation and amortization below) | 931,536                   | 1,311,731                  | 2,808,296                | 3,758,716                  |
| Selling, general and administrative expenses                       | 168,309                   | 211,262                    | 525,658                  | 629,704                    |
| Depreciation and amortization                                      | 6,410                     | 6,543                      | 19,926                   | 20,168                     |
| Income from operations   | 46,172                    | 98,551                     | 137,352                  | 272,458                    |
| Interest expense, net  | 13,599                    | 15,646                     | 39,949                   | 49,786                     |
| Gain on debt exchange  | (5,961)                   |                            | (5,961)                  |                            |
| Other income   | (1,391)                   | (2,274)                    | (4,118)                  | (7,657)                    |
| Income before income taxes   | 39,925                    | 85,179                     | 107,482                  | 230,329                    |
| Provision for income taxes   | 6,306                     | 21,451                     | 24,147                   | 65,924                     |
| Net income   | \$ 33,619                 | \$ 63,728                  | \$ 83,335                | \$ 164,405                 |
| Earnings per share :   |                           |                            |                          |                            |
| Basic  | \$ 0.80                   | \$ 1.51                    | \$ 1.97                  | \$ 3.87                    |
| Diluted  | \$ 0.79                   | \$ 1.48                    | \$ 1.95                  | \$ 3.77                    |

(1) The balances reported for the three months and nine months ended September 30, 2008 have been revised as a result of the retrospective application of new FASB guidance related to convertible debt instruments

on January 1,  
2009 (see Note  
3).

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

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**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

| <i>Amounts in thousands</i>   | <b>Nine Months Ended<br/>September 30,</b> |                            |
|---|--|----------------------------|
|   | <b>2009</b>                                | <b>2008 <sup>(1)</sup></b> |
| <b>Operating Activities:</b>  |  |                            |
| Net income  | \$ 83,335                                  | \$ 164,405                 |
| Adjustments to reconcile net income to net cash provided by operating activities:         |  |                            |
| Depreciation and amortization   | 19,926                                     | 20,168                     |
| Amortization of debt issuance costs   | 2,862                                      | 2,525                      |
| Amortization of debt discount   | 10,556                                     | 10,884                     |
| Deferred income taxes   | 5,413                                      | (6,716)                    |
| Stock-based compensation expense  | 9,787                                      | 9,703                      |
| Gain on debt exchange   | (5,961)                                    |                            |
| Gain on sale of property, buildings and equipment   | (308)                                      | (2,114)                    |
| Loss on sale of subsidiary  |  | 3,005                      |
| Equity income, net of distributions in 2009 and 2008 of \$4,786 and \$5,857, respectively | 668  | (1,800)                    |
| Excess tax benefit from stock-based compensation  | (197)                                      | (9,457)                    |
| Interest related to uncertain tax positions   | 863  | 957                        |
| Changes in assets and liabilities   |  |                            |
| Trade and other receivables, net  | 148,858                                    | (99,399)                   |
| Inventories, net  | 117,086                                    | (14,348)                   |
| Prepaid expenses and other current assets   | (8,577)                                    | 23,292                     |
| Accounts payable  | (69,698)                                   | 129,821                    |
| Accrued payroll and benefit costs   | (21,413)                                   | (2,698)                    |
| Other current and noncurrent liabilities  | (2,346)                                    | (1,301)                    |
| Net cash provided by operating activities   | 290,854                                    | 226,927                    |
| <b>Investing Activities:</b>  |  |                            |
| Capital expenditures  | (10,505)                                   | (26,947)                   |
| Acquisition payments  | (214)                                      | (3,289)                    |
| Proceeds from sale of subsidiary  |  | 60,000                     |
| Equity distribution   | 1,328                                      |                            |
| Proceeds from sale of assets  | 111  | 3,794                      |
| Net cash (used) provided by investing activities  | (9,280)                                    | 33,558                     |
| <b>Financing Activities:</b>  |  |                            |
| Short-term borrowings, net  |  | 20,000                     |
| Proceeds from issuance of long-term debt  | 305,700                                    | 523,400                    |
| Repayments of long-term debt  | (545,458)                                  | (682,715)                  |
| Debt issuance costs   | (13,261)                                   | (45)                       |
| Proceeds from the exercise of stock options   | 312  | 9,357                      |
| Excess tax benefit from stock-based compensation  | 197  | 9,457                      |



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|  |            |            |
|--|------------|------------|
| Repurchase of common stock                                   | (30)       | (78,852)   |
| Decrease in bank overdrafts                                  | (11,122)   | (25,239)   |
| Payments on capital lease obligations                        | (1,500)    | (1,363)    |
| Net cash used by financing activities                        | (265,162)  | (226,000)  |
| Effect of exchange rate changes on cash and cash equivalents | 8,595      | (3,512)    |
| Net change in cash and cash equivalents                      | 25,007     | 30,973     |
| Cash and cash equivalents at the beginning of period         | 86,338     | 72,297     |
| Cash and cash equivalents at the end of period               | \$ 111,345 | \$ 103,270 |

**Supplemental disclosures:**

Non-cash investing and financing activities:

|   |         |       |
|---|---------|-------|
| Property, buildings and equipment acquired through capital leases | 805     | 1,990 |
| Issuance of long-term debt  | 345,000 |       |
| Reacquisition of long-term debt                                   | 357,411 |       |

(1) The balances reported for the nine months ended September 30, 2009 have been revised as a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009 (see Note 3).

*The accompanying notes are an integral part of the condensed consolidated financial statements.*

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**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(unaudited)

**1. ORGANIZATION**

WESCO International, Inc. and its subsidiaries (collectively, WESCO or the Company), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical supplies and equipment and is a provider of integrated supply procurement services with operations in the United States, Canada, Mexico, the United Kingdom, Nigeria, United Arab Emirates, Singapore, Australia and China. WESCO currently operates approximately 380 full service branch locations and seven distribution centers (four in the United States and three in Canada.)

**2. ACCOUNTING POLICIES**

*Basis of Presentation*

The unaudited condensed consolidated financial statements of WESCO have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the SEC). The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in WESCO's Current Report on Form 8-K dated July 27, 2009 filed with the SEC. The December 31, 2008 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

The unaudited condensed consolidated balance sheet as of September 30, 2009, the unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2009 and 2008, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2009 and 2008, respectively, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair statement of the results of the interim periods. All adjustments reflected in the unaudited condensed consolidated financial statements are of a normal recurring nature unless indicated. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

We evaluated subsequent events through November 6, 2009, which is the date the unaudited condensed consolidated financial statements were issued.

*Reclassification*

Certain prior period balances within the balance sheet have been reclassified to conform with current year presentation.

*Recent Accounting Pronouncements*

In June 2009, the Financial Accounting Standards Board (the FASB) issued new guidance concerning the organization of authoritative guidance under U.S. GAAP. This new guidance created the FASB Accounting Standards Codification (the Codification). The Codification does not change current U.S. GAAP but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification supersedes all existing accounting and reporting standards, and all other accounting literature not included in the Codification is nonauthoritative. The Codification became effective for WESCO during the interim period ended September 30, 2009 and did not have an impact on WESCO's financial position, results of operations or cash flows.

**Table of Contents****3. CHANGE IN METHOD OF ACCOUNTING FOR CONVERTIBLE DEBT INSTRUMENTS**

On January 1, 2009, WESCO retrospectively applied the provisions of new guidance concerning convertible debt instruments to its 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures ) and 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures ). Prior to the adoption of this guidance, WESCO accounted for its convertible debt instruments solely as long-term debt. The new guidance requires an issuer of certain convertible debt instruments to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's non-convertible debt borrowing rate. This accounting treatment results in an increase in non-cash interest reported in the financial statements, a decrease in long-term debt, an increase in equity and an increase in deferred income taxes.

Proceeds of \$150 million and \$300 million were received in connection with the issuance of the 2025 Debentures and 2026 Debentures, respectively. WESCO utilized an interest rate of 6.0% for both the 2025 Debentures and 2026 Debentures to reflect the non-convertible debt borrowing rate of its offerings upon issuance, which resulted in discounts of \$21.3 million and \$53.7 million, respectively, to the convertible note balances and a net increase in additional capital of \$12.3 million and \$31.2 million, respectively. In addition, financing costs related to the issuance of the Debentures were allocated between the debt and equity components. The debt discounts are being amortized over a five-year period. The amortization period ends on October 15, 2010 for the 2025 Debentures and November 15, 2011 for the 2026 Debentures. Debt discount amortization of \$0.7 million will be recognized over the remainder of 2009, \$2.1 million in 2010, and less than \$0.1 million in 2011. These amounts reflect the impact of the convertible debt exchange offer, which was completed on August 27, 2009 (see Note 7).

As of September 30, 2009, the unamortized discount for the 2025 Debentures and 2026 Debentures was \$2.9 million and \$0.1 million, respectively. As of December 31, 2008, the unamortized discount for the 2025 Debentures and 2026 Debentures was \$8.1 million and \$32.4 million, respectively. The decrease in the unamortized discounts is due to the completion of the convertible debt exchange offer (see Note 7). The net carrying amounts of the liability components are classified as long-term debt in the consolidated balance sheets.

WESCO recorded a deferred tax liability for the basis difference associated with the liability components. The initial recognition of deferred taxes was recorded as an adjustment to additional capital. In subsequent periods, the deferred tax liability is reduced and a deferred tax benefit is recognized in earnings as the debt discount is amortized to pre-tax income.

As described above, the Debentures accrue interest at an effective interest rate of 6.0%. For the three months ended September 30, 2009 and 2008, interest expense for the 2025 Debentures and 2026 Debentures totaled \$4.3 million and \$5.9 million, respectively, of which \$2.7 million and \$3.6 million, respectively, was non-cash interest. For the nine months ended September 30, 2009 and 2008, interest expense for the 2025 Debentures and 2026 Debentures totaled \$16.6 million and \$17.8 million, respectively, of which \$10.4 million and \$10.9 million, respectively, was non-cash interest. Interest expense for the three and nine months ended September 30, 2009 reflects the impact of the convertible debt exchange (see Note 7).

The following table provides the effect of applying the new guidance on individual line items in the 2008 financial statements:

| <b>Condensed Consolidated Statement of Income</b> | <b>Previously<br/>Reported<br/>Three Months<br/>Ended<br/>September 30,<br/>2008</b> | <b>Revised<br/>Three Months<br/>Ended<br/>September 30,<br/>2008</b> |
|---|--|--|
| Interest expense, net                             | \$ 12,127  | \$ 15,646  |
| Income before income taxes                        | 88,698   | 85,179   |
| Provision for income taxes                        | 22,830   | 21,451   |
| Net Income  | 65,868   | 63,728   |
| Earnings per share:                               |  |  |

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|         |   |      |      |
|---------|---|------|------|
| Basic   |   | 1.56 | 1.51 |
| Diluted |   | 1.53 | 1.48 |
|         | 6 |      |      |

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|   | <b>Previously<br/>Reported<br/>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> | <b>Revised<br/>Nine Months<br/>Ended<br/>September 30,<br/>2008</b> |
|---|---|---|
| <b>Condensed Consolidated Statement of Income</b>     |   |   |
| Interest expense, net                                 | \$ 39,229   | \$ 49,786   |
| Income before income taxes                            | 240,886   | 230,329   |
| Provision for income taxes                            | 70,062  | 65,924  |
| Net Income  | 170,824   | 164,405   |
| Earnings per share:                                   |   |   |
| Basic   | 4.02  | 3.87  |
| Diluted   | 3.92  | 3.77  |
|   | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b>                             | <b>Nine Months<br/>Ended<br/>September 30,<br/>2008</b>             |
| <b>Condensed Consolidated Statement of Cash Flows</b> |   |   |
| Net income  | \$ 170,824  | \$ 164,405  |
| Adjustments to net income:                            |   |   |
| Amortization of debt issuance costs                   | 2,852   | 2,525   |
| Amortization of debt discount                         |   | 10,884  |
| Deferred income taxes                                 | (2,578)   | (6,716)   |
| Net cash provided by operating activities             | 226,927   | 226,927   |

**4. STOCK-BASED COMPENSATION**

WESCO's stock-based employee compensation plans are comprised of stock options, stock-settled stock appreciation rights and restricted stock units. Compensation cost for all stock-based awards is measured at fair value on the date of grant, and compensation cost is recognized, net of estimated forfeitures, over the service period for awards expected to vest. The fair value of stock options and stock-settled appreciation rights is determined using the Black-Scholes valuation model. The fair value of restricted stock units is determined by the grant-date closing price of WESCO's common stock. The forfeiture assumption is based on WESCO's historical employee behavior that is reviewed on an annual basis. No dividends are assumed.

During the three months ended September 30, 2009 and 2008 and nine months ended September 30, 2009 and 2008, WESCO granted the following stock-settled stock appreciation rights and restricted stock units at the following weighted average assumptions:

|   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2009</b>                                 | <b>2008</b> | <b>2009</b>                                | <b>2008</b> |
| Stock-settled appreciation rights granted | 801,531                                     | 895,235     | 803,231                                    | 920,344     |
| Restricted stock units                    | 245,997                                     |             | 245,997                                    |             |
| Risk free interest rate                   | 2.3%  | 3.1%        | 2.3%                                       | 3.1%        |
| Expected life                             | 4.5   | 4 years     | 4.5  | 4 years     |
| Expected volatility                       | years                                       |             | years                                      |             |
|   | 51%   | 38%         | 51%  | 38%         |

For the three and nine months ended September 30, 2009 and 2008, the weighted average fair value per stock-settled appreciation right granted was \$11.15 and \$13.65, respectively. For the three and nine months ended September 30, 2009, the weighted average fair value per restricted stock unit granted was \$25.37.

WESCO recognized \$3.5 million and \$3.2 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2009 and 2008, respectively. WESCO recognized \$9.8 million and \$9.7 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, there was \$23.3 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$3.5 million is expected to be recognized over the remainder of 2009, \$11.7 million in 2010, \$6.3 million in 2011 and \$1.8 million in 2012.

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During the nine months ended September 30, 2009 and 2008, the total intrinsic value of stock options and stock-settled stock appreciation rights exercised was \$0.6 million and \$26.1 million, respectively, and the total amount of cash received from the exercise of options was \$0.3 million and \$9.4 million, respectively. The tax impact associated with the exercise of stock options and stock-settled stock appreciation rights for the nine months ended September 30, 2009 and 2008 was a detriment of \$0.1 million and a benefit \$9.5 million, respectively, and was recorded to additional capital.

The following table sets forth a summary of stock options and stock-settled stock appreciation rights and related information for the nine months ended September 30, 2009:

|                                   | <b>Awards</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted<br/>Average<br/>Remaining<br/>Contractual<br/>Term<br/>(In<br/>Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<br/>(In<br/>Thousands)</b> |
|-----------------------------------|---------------|--|---|---|
| Outstanding at December 31, 2008  | 3,933,035     | \$ 36.44   |   |   |
| Granted                           | 803,231       | 25.37  |   |   |
| Exercised                         | (83,587)      | 16.95  |   |   |
| Forfeited                         | (202,200)     | 44.71  |   |   |
| Outstanding at September 30, 2009 | 4,450,479     | 34.44  | 6.8   | \$ 19,500   |
| Exercisable at September 30, 2009 | 2,867,615     | \$ 34.26   | 5.5   | \$ 16,693   |

The following table sets forth a summary of restricted stock units and related information for the nine months ended September 30, 2009:

|                                | <b>Awards</b> | <b>Weighted<br/>Average<br/>Fair<br/>Value</b> |
|--------------------------------|---------------|--|
| Unvested at December 31, 2008  |               |  |
| Granted                        | 245,997       | \$ 25.37                                       |
| Vested                         |               |  |
| Forfeited                      |               |  |
| Unvested at September 30, 2009 | 245,997       | \$ 25.37                                       |

**5. EARNINGS PER SHARE**

Basic earnings per share are computed by dividing net income by the weighted average common shares outstanding during the periods. Diluted earnings per share are computed by dividing net income by the weighted average common shares and common share equivalents outstanding during the periods. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method, which includes consideration of stock-based compensation.

The following table sets forth the details of basic and diluted earnings per share:

**Three Months Ended**

| <i>Amounts in thousands, except share and per share data</i>   | <b>September 30,</b> |             |
|--|----------------------|-------------|
|  | <b>2009</b>          | <b>2008</b> |
| Net income reported <sup>(1)</sup>   | \$ 33,619            | \$ 63,728   |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 42,278,729           | 42,154,940  |
| Common shares issuable upon exercise of dilutive stock options   | 479,142              | 944,697     |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 42,757,871           | 43,099,637  |
| Earnings per share: <sup>(1)</sup>   |                      |             |
| Basic  | \$ 0.80              | \$ 1.51     |
| Diluted  | \$ 0.79              | \$ 1.48     |

(1) As a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009, net income and earnings per share were revised for the three months ended September 30, 2008 (see Note 3).



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| <i>Amounts in thousands, except share and per share data</i>   | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2009</b>                                | <b>2008</b> |
| Net income reported <sup>(1)</sup>   | \$ 83,335                                  | \$ 164,405  |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 42,264,440                                 | 42,465,351  |
| Common shares issuable upon exercise of dilutive stock options   | 381,175                                    | 1,116,496   |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 42,645,615                                 | 43,581,847  |
| Earnings per share: <sup>(1)</sup>   |  |             |
| Basic  | \$ 1.97                                    | \$ 3.87     |
| Diluted  | \$ 1.95                                    | \$ 3.77     |

(1) As a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009, net income and earnings per share were revised for the nine months ended September 30, 2008 (see Note 3).

For the three months ended September 30, 2009 and 2008, the computation of diluted earnings per share excluded stock-settled stock appreciation rights of approximately 3.3 million and 2.0 million, respectively, at weighted average exercise prices of \$42 per share and \$52 per share, respectively. For the nine months ended September 30, 2009 and 2008, the computation of diluted earnings per share excluded stock-settled stock appreciation rights of approximately 3.7 million and 2.0 million, respectively, at weighted average exercise prices of \$40 per share and \$52 per share, respectively. These amounts were excluded because their effect would have been antidilutive.

Because of WESCO's obligation to settle the par value of the 2025 Debentures, the 2026 Debentures and its 6.0% Convertible Senior Debentures due 2029 (the 2029 Debentures and together with the 2025 Debentures and 2026 Debentures, the Debentures) in cash, WESCO is not required to include any shares underlying the Debentures in its diluted weighted average shares outstanding until the average stock price per share for the period exceeds the conversion price of the respective Debentures (refer to Note 7 for additional information regarding the 2029 Debentures). At such time, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) would be included, which is based upon the amount by which the average stock price exceeds the conversion price. The conversion prices of the 2029 Debentures, 2026 Debentures and 2025 Debentures

are \$28.87, \$88.15 and \$41.86, respectively. Share dilution is limited to a maximum of 11,951,939 shares for the 2029 Debentures, 2,972 shares for the 2026 Debentures and 2,205,434 shares for the 2025 Debentures. Share dilution for the 2025 Debentures and 2026 Debentures reflects the impact of the convertible debt exchange (see Note 7). Since the average stock price for the three and nine month periods ended September 30, 2009 and 2008 was less than the conversion prices, there was no impact of the Debentures on diluted earnings per share.

#### **6. ACCOUNTS RECEIVABLE SECURITIZATION**

On April 13, 2009, WESCO Distribution Inc. ( WESCO Distribution ) entered into an amendment and restatement of its existing accounts receivable securitization facility (the Receivables Facility ), pursuant to the terms and conditions of the Third Amended and Restated Receivables Purchase Agreement, dated as of April 13, 2009 (the Restated Agreement ), by and among WESCO Receivables Corp., WESCO Distribution, the Purchasers and Purchaser Agents party thereto and PNC Bank, National Association (as successor to Wachovia Capital Markets, LLC), as Administrator. The Restated Agreement decreases the purchase commitment under the Receivables Facility from \$500 million to \$400 million, subject to the right of WESCO Distribution to increase the purchase commitment from time to time up to \$450 million with the voluntary participation of existing purchasers and/or the addition of new purchasers to fund such increase. The Restated Agreement also extends the term of the Receivables Facility to April 13, 2012; accordingly, the outstanding borrowings under the Receivables Facility are classified as long-term debt in the consolidated balance sheet. The outstanding borrowings as of December 31, 2008 are classified as short-term debt because, prior to the Restated Agreement, third party conduits and financial institutions could under certain conditions require WESCO Distribution to repay all or a portion of the outstanding amount.

Under the Receivables Facility, WESCO Distribution and certain of its domestic subsidiaries sell, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corp., a wholly-owned special purpose entity (the SPE ). The SPE sells, without recourse, a senior undivided interest in the receivables to third-party conduits and financial institutions for cash while maintaining a subordinated undivided interest in the receivables, in the form of overcollateralization. WESCO Distribution has agreed to continue servicing the sold receivables for the third-party conduits and financial institutions at market rates; accordingly, no servicing asset or liability has been recorded.

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As of September 30, 2009 and December 31, 2008, accounts receivable eligible for securitization totaled \$452.1 million and \$602.9 million, respectively. The consolidated balance sheets as of September 30, 2009 and December 31, 2008 reflect \$50.0 million and \$295.0 million, respectively, of account receivable balances legally sold to third party conduits and financial institutions, as well as borrowings for equal amounts. At September 30, 2009, the interest rate on borrowings under this facility was approximately 4.2%.

**7. 6.0% CONVERTIBLE SENIOR DEBENTURES DUE 2029**

On August 27, 2009, WESCO International, Inc. ( WESCO International ) completed an exchange offer pursuant to which it issued \$345.0 million aggregate principal amount of 2029 Debentures in exchange for approximately \$299.7 million and \$57.7 million aggregate principal amounts of its outstanding 2026 Debentures and 2025 Debentures, respectively. As a result of the debt exchange, WESCO recorded a gain of \$6.0 million, which included the write-off of debt issuance costs. The 2029 Debentures were issued pursuant to an Indenture dated August 27, 2009 (the Indenture ), with The Bank of New York Mellon, as trustee, and are unconditionally guaranteed on an unsecured senior subordinate basis by WESCO Distribution. As discussed in Note 3, WESCO separately accounts for the liability and equity components of its convertible debt instruments. WESCO utilized an interest rate of 13.875% to reflect the non-convertible debt borrowing rate of its offering upon issuance, which resulted in a \$181.2 million discount to the 2029 Debenture balance and a net increase in additional capital of \$106.8 million. In addition, the financing costs related to the issuance of the 2029 Debentures were allocated between the debt and equity components. WESCO is amortizing the debt discount over the life of the instrument. Non-cash interest expense of \$0.2 million was recorded for the period from August 27, 2009 to September 30, 2009. The debt discount amortization will approximate \$0.5 million for the remainder of 2009, \$2.1 million in 2010, \$2.4 million in 2011, \$2.7 million in 2012, \$3.1 million in 2013 and \$3.6 million in 2014.

While the 2029 Debentures accrue interest at an effective interest rate of 13.875% (as described above), the coupon interest rate of 6.0% per annum is payable in cash semi-annually in arrears on each March 15 and September 15, commencing March 15, 2010. Beginning with the six-month period commencing September 15, 2016, WESCO will also pay contingent interest in cash during any six-month period in which the trading price of the 2029 Debentures for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the 2026 Debentures. During any interest period when contingent interest shall be payable, the contingent interest payable per \$1,000 principal amount of 2029 Debentures will equal 0.25% of the average trading price of \$1,000 principal amount of the 2029 Debentures during the five trading days immediately preceding the first day of the applicable six-month interest period. In accordance with guidance related to derivatives and hedging, the contingent interest feature of the 2029 Debentures is an embedded derivative that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at issuance or September 30, 2009.

The 2029 Debentures are convertible into cash, and in certain circumstances, shares of WESCO International s common stock, at any time on or after September 15, 2028, or prior to September 15, 2028 in certain circumstances. The 2029 Debentures will be convertible based on an initial conversion rate of 34.6433 shares of common stock per \$1,000 principal amount of the 2029 Debentures (equivalent to an initial conversion price of approximately \$28.87 per share). The conversion rate and conversion price may be adjusted under certain circumstances.

At any time on or after September 15, 2016, the Company may redeem all or a part of the 2029 Debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date. If WESCO International undergoes certain fundamental changes, as defined in the Indenture, prior to maturity, holders of the 2029 Debentures will have the right, at their option, to require WESCO International to repurchase for cash some or all of their 2029 Debentures at a repurchase price equal to 100% of the principal amount of the 2029 Debentures being repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.

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The following table sets forth the components of WESCO's outstanding convertible debenture indebtedness:

|                            | September 30, 2009   |             |   | December 31, 2008    |            |                           |
|----------------------------|----------------------|-------------|---|----------------------|------------|---------------------------|
|                            | Principal<br>Balance | Discount    | Net<br>Carrying<br>Amount<br>(In thousands) | Principal<br>Balance | Discount   | Net<br>Carrying<br>Amount |
| Convertible<br>Debentures: |                      |             |   |                      |            |                           |
| 2025                       | \$ 92,327            | \$ (2,870)  | \$ 89,457                                   | \$ 150,000           | \$ (8,121) | \$ 141,879                |
| 2026                       | 262                  | (21)        | 241   | 300,000              | (32,380)   | 267,620                   |
| 2029                       | 345,000              | (181,051)   | 163,949                                     |                      |            |                           |
|                            | \$437,589            | \$(183,942) | \$253,647                                   | \$450,000            | \$(40,501) | \$409,499                 |

**8. EQUITY INVESTMENT**

During the first quarter of 2008, WESCO and Deutsch Engineered Connecting Devices, Inc. ( Deutsch ) completed a transaction with respect to WESCO's LADD operations, which resulted in a joint venture in which Deutsch owns a 60% interest and WESCO owns a 40% interest. WESCO accounts for its investment in the joint venture using the equity method of accounting. Accordingly, earnings from the joint venture are recorded as other income in the consolidated statement of income. Deutsch is entitled, but not obliged, to acquire the remaining 40% after January 1, 2010. As a result of this transaction, WESCO recognized an after-tax loss of approximately \$2.1 million during the first quarter of 2008. Deutsch paid to WESCO aggregate consideration of approximately \$75 million, consisting of \$60 million in cash plus a \$15 million promissory note, which is included in other accounts receivable in the consolidated balance sheet.

Principal and accrued interest on the promissory note are due and payable to WESCO on January 1, 2010. Based on discussions with Deutsch, management believes the repayment terms of the promissory note may require modification; however, such discussions are ongoing and management continues to believe the book value of the promissory note reflects its collectability. As such, no reserve or allowance has been recorded against the promissory note. Management cannot provide any assurance that there will not be events that could adversely affect the collectability of the promissory note in future periods.

**9. EMPLOYEE BENEFIT PLANS**

A majority of WESCO's employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO's formation. WESCO also offers a deferred compensation plan for select individuals. For U.S. participants, WESCO will make contributions in an amount equal to 50% of the participant's total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO will make contributions in an amount ranging from 1% to 7% of the participant's eligible compensation based on years of continuous service. In addition, employer contributions may be made at the discretion of the Board of Directors. For the nine months ended September 30, 2009 and 2008, WESCO incurred charges of \$7.4 million and \$15.2 million, respectively, for all such plans. Effective August 1, 2009, WESCO suspended all discretionary contributions. Contributions are made in cash to employee retirement savings plan accounts. Employees then have the option to transfer balances allocated to their accounts into any of the available investment options, including WESCO common stock.

**10. COMMITMENTS AND CONTINGENCIES**

WESCO is a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that WESCO sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of \$52 million. WESCO has denied any liability, believes that it has meritorious defenses and intends to vigorously defend itself against these allegations. Accordingly, no liability is recorded for this matter as of September 30, 2009.

**Table of Contents****11. COMPREHENSIVE INCOME**

The following tables set forth comprehensive income and its components:

| <i>Amounts in thousands</i>             | <b>Three Months Ended<br/>September 30,</b> |                            |
|---|---|----------------------------|
|   | <b>2009</b>                                 | <b>2008 <sup>(1)</sup></b> |
| Net income                              | \$ 33,619                                   | \$ 63,728                  |
| Foreign currency translation adjustment | 11,395                                      | (7,517)                    |
| Comprehensive income                    | \$ 45,014                                   | \$ 56,211                  |

- (1) As a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009, net income and comprehensive income were revised for the three months ended September 30, 2008 (see Note 3).

| <i>Amounts in thousands</i>             | <b>Nine Months Ended<br/>September 30,</b> |                            |
|---|--|----------------------------|
|   | <b>2009</b>                                | <b>2008 <sup>(1)</sup></b> |
| Net income                              | \$ 83,335                                  | \$ 164,405                 |
| Foreign currency translation adjustment | 21,400                                     | (11,950)                   |
| Comprehensive income                    | \$ 104,735                                 | \$ 152,455                 |

- (1) As a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009, net income and comprehensive income were revised for the nine months ended September 30, 2008 (see Note 3).

**12. SHARE REPURCHASE PLAN**

On September 28, 2007, WESCO announced that its Board of Directors authorized a stock repurchase program in the amount of up to \$400 million. The program expired on September 30, 2009. The shares were repurchased from time to time in the open market or through privately negotiated transactions. No shares were repurchased during the three or nine months ended September 30, 2009.



**Table of Contents****13. INCOME TAXES**

The following tables set forth the reconciliation between the federal statutory income tax rate and the effective rate:

|   | <b>Three Months Ended</b> |                           |
|---|---------------------------|---------------------------|
|   | <b>September 30,</b>      |                           |
|   | <b>2009</b>               | <b>2008<sup>(2)</sup></b> |
| Federal statutory rate                        | 35.0%                     | 35.0%                     |
| State taxes, net of federal tax benefit       | 1.3                       | 1.6                       |
| Nondeductible expenses                        | 0.8                       | 0.6                       |
| Domestic tax benefit from foreign operations  | 0.2                       | (2.1)                     |
| Foreign tax rate differences <sup>(1)</sup>   | (17.9)                    | (9.6)                     |
| Domestic production activity deduction        | 0.1                       | (0.3)                     |
| Adjustment related to uncertain tax positions | 1.4                       |                           |
| Revaluation of deferred tax items             | (4.5)                     |                           |
| Other   | (0.6)                     |                           |
|   | 15.8%                     | 25.2%                     |
|   |                           |                           |
|   | <b>Nine Months Ended</b>  |                           |
|   | <b>September 30,</b>      |                           |
|   | <b>2009</b>               | <b>2008<sup>(2)</sup></b> |
| Federal statutory rate                        | 35.0%                     | 35.0%                     |
| State taxes, net of federal tax benefit       | 2.2                       | 2.0                       |
| Nondeductible expenses                        | 0.8                       | 0.6                       |
| Domestic tax benefit from foreign operations  | (0.7)                     | (1.1)                     |
| Foreign tax rate differences <sup>(1)</sup>   | (13.3)                    | (8.1)                     |
| Domestic production activity deduction        | (0.3)                     | (0.2)                     |
| Adjustment related to uncertain tax positions | 0.9                       | 0.2                       |
| Revaluation of deferred tax items             | (1.6)                     |                           |
| Other   | (0.5)                     | 0.2                       |
|   | 22.5%                     | 28.6%                     |

(1) Includes a benefit of \$6.8 million and \$6.4 million for the three months ended September 30, 2009 and 2008, respectively, and \$13.5 million and \$15.8 million for the nine



months ended  
September 30,  
2009 and 2008,  
respectively,  
from the  
recapitalization  
of Canadian  
operations.

- (2) As a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009, the effective rate was revised for the three and nine months ended September 30, 2008 (see Note 3).

WESCO analyzes its filing positions for all open tax years in all jurisdictions. The Company is currently under examination in several tax jurisdictions, both within the United States and outside the United States, and remains subject to examination until the statute of limitations expires for the respective tax jurisdictions. The following summary sets forth the tax years that remain open in the Company's major tax jurisdictions:

|               |         |                  |
|---------------|---------|------------------|
| United States | Federal | 2000 and forward |
| United States | States  | 2004 and forward |
| Canada        |         | 1996 and forward |

During the next twelve months, it is reasonably possible that certain issues will be settled by the resolution of Internal Revenue Service tax examinations or the expiration of statutes of limitations. An estimate of the amount of change in unrecognized tax benefits cannot be made at this time as the outcome of the audits and the timing of the settlements are subject to significant uncertainty.

The total amounts of unrecognized tax benefits were \$8.4 million and \$7.5 million as of September 30, 2009 and December 31, 2008, respectively. If these tax benefits were recognized in the consolidated financial statements, the portion of these amounts that would reduce the Company's effective tax rate would be \$7.2 million and \$6.3 million, respectively. WESCO records interest related to uncertain tax positions as a part of interest expense in the consolidated statement of income. Any penalties are recognized as part of income tax expense. As of September 30, 2009 and December 31, 2008, WESCO had an accrued liability of \$4.3 million and \$3.5 million, respectively, for interest related to uncertain tax positions. There were no penalties recorded during the three or nine months ended September 30, 2009.

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**14. OTHER FINANCIAL INFORMATION**

WESCO Distribution, a wholly owned subsidiary of WESCO International, has outstanding \$150.0 million in aggregate principal amount of 7.50% Senior Subordinated Notes due 2017 (the 2017 Notes ), and WESCO International has outstanding \$92.3 million in aggregate principal amount of 2025 Debentures, \$0.3 million in aggregate principal amount of 2026 Debentures and \$345.0 million in aggregate principal amount of 2029 Debentures. The 2017 Notes are fully and unconditionally guaranteed by WESCO International, Inc. on a subordinated basis to all existing and future senior indebtedness of WESCO International. The 2025 Debentures, 2026 Debentures and 2029 Debentures are fully and unconditionally guaranteed by WESCO Distribution on a senior subordinated basis to all existing and future senior indebtedness of WESCO Distribution.

Condensed consolidating financial information for WESCO International, WESCO Distribution and the non-guarantor subsidiaries is as follows:

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEETS****September 30, 2009  
(In thousands)**

|  | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Cash and cash equivalents                                | \$ 5                            | \$ 19,952                      | \$ 91,388                     | \$   | \$ 111,345   |
| Trade accounts receivable,<br>net                        |                                 |                                | 663,433                       |  | 663,433      |
| Inventories, net   |                                 | 306,925                        | 188,376                       |  | 495,301      |
| Other current assets                                     |                                 | 33,619                         | 54,150                        |  | 87,769       |
| Total current assets                                     | 5                               | 360,496                        | 997,347                       |  | 1,357,848    |
| Intercompany receivables,<br>net                         |                                 | (1,206,077)                    | 1,740,040                     | (533,963)                                      |              |
| Property, buildings and<br>equipment, net                |                                 | 45,312                         | 72,393                        |  | 117,705      |
| Intangible assets, net                                   |                                 | 8,915                          | 74,231                        |  | 83,146       |
| Goodwill and other<br>intangibles, net                   |                                 | 395,546                        | 467,793                       |  | 863,339      |
| Investments in affiliates<br>and other noncurrent assets | 1,772,543                       | 3,156,712                      | 21,808                        | (4,874,364)                                    | 76,699       |
| Total assets   | \$ 1,772,548                    | \$ 2,760,904                   | \$ 3,373,612                  | \$ (5,408,327)                                 | \$ 2,498,737 |
| Accounts payable   | \$                              | \$ 392,875                     | \$ 101,970                    | \$   | \$ 494,845   |
| Short-term debt  |                                 |                                |                               |  |              |
| Other current liabilities                                |                                 | 42,192                         | 72,188                        |  | 114,380      |
| Total current liabilities                                |                                 | 435,067                        | 174,158                       |  | 609,225      |
| Intercompany payables, net                               | 533,963                         |                                |                               | (533,963)                                      |              |
| Long-term debt   | 253,647                         | 357,765                        | 89,635                        |  | 701,047      |
| Other noncurrent liabilities                             | 23,527                          | 201,654                        | 1,873                         |  | 227,054      |
| Stockholders' equity                                     | 961,411                         | 1,766,418                      | 3,107,946                     | (4,874,364)                                    | 961,411      |
| Total liabilities and<br>stockholders' equity            | \$ 1,772,548                    | \$ 2,760,904                   | \$ 3,373,612                  | \$ (5,408,327)                                 | \$ 2,498,737 |

**December 31, 2008  
(In thousands)**

|  | WESCO | WESCO | Non-Guarantor | Consolidating |
|--|-------|-------|---------------|---------------|
|--|-------|-------|---------------|---------------|

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|  | International,<br>Inc. | Distribution,<br>Inc. | Subsidiaries | and<br>Eliminating<br>Entries | Consolidated |
|--|------------------------|-----------------------|--------------|-------------------------------|--------------|
| Cash and cash equivalents                                | \$                     | \$ 18,453             | \$ 67,885    | \$                            | \$ 86,338    |
| Trade accounts receivable,<br>net                        |                        |                       | 791,356      |                               | 791,356      |
| Inventories, net   |                        | 421,178               | 184,500      |                               | 605,678      |
| Other current assets                                     | (12,100)               | 44,469                | 41,922       |                               | 74,291       |
| Total current assets                                     | (12,100)               | 484,100               | 1,085,663    |                               | 1,557,663    |
| Intercompany receivables,<br>net                         |                        | (1,367,199)           | 1,862,220    | (495,021)                     |              |
| Property, buildings and<br>equipment, net                |                        | 46,389                | 72,834       |                               | 119,223      |
| Intangible assets, net                                   |                        | 9,549                 | 79,140       |                               | 88,689       |
| Goodwill and other<br>intangibles, net                   |                        | 395,546               | 467,232      |                               | 862,778      |
| Investments in affiliates<br>and other noncurrent assets | 1,671,724              | 3,074,554             | 19,133       | (4,673,903)                   | 91,508       |
| Total assets   | \$ 1,659,624           | \$ 2,642,939          | \$ 3,586,222 | \$ (5,168,924)                | \$ 2,719,861 |
| Accounts payable   | \$                     | \$ 433,636            | \$ 122,866   | \$                            | \$ 556,502   |
| Short-term debt  |                        |                       | 295,000      |                               | 295,000      |
| Other current liabilities                                |                        | 80,786                | 73,721       |                               | 154,507      |
| Total current liabilities                                |                        | 514,422               | 491,587      |                               | 1,006,009    |
| Intercompany payables, net                               | 495,021                |                       |              | (495,021)                     |              |
| Long-term debt   | 409,499                | 350,601               | 41,327       |                               | 801,427      |
| Other noncurrent liabilities                             |                        | 111,422               | 45,899       |                               | 157,321      |
| Stockholders' equity                                     | 755,104                | 1,666,494             | 3,007,409    | (4,673,903)                   | 755,104      |
| Total liabilities and<br>stockholders' equity            | \$ 1,659,624           | \$ 2,642,939          | \$ 3,586,222 | \$ (5,168,924)                | \$ 2,719,861 |

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****Three Months Ended September 30, 2009  
(In thousands)**

|   | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales                                       | \$                              | \$ 767,537                     | \$384,890                     | \$   | \$1,152,427  |
| Cost of goods sold                              |                                 | 624,784                        | 306,752                       |  | 931,536      |
| Selling, general and<br>administrative expenses | 20                              | 131,880                        | 36,409                        |  | 168,309      |
| Depreciation and amortization                   |                                 | 4,990                          | 1,420                         |  | 6,410        |
| Results of affiliates<br>operations             | 28,148                          | 36,328                         |                               | (64,476)                                       |              |
| Interest expense, net                           | 470                             | 14,907                         | (1,778)                       |  | 13,599       |
| Gain on debt exchange                           | (5,961)                         |                                |                               |  | (5,961)      |
| Other income                                    |                                 | (1,391)                        |                               |  | (1,391)      |
| Provision for income taxes                      |                                 | 547                            | 5,759                         |  | 6,306        |
| Net income                                      | \$33,619                        | \$ 28,148                      | \$ 36,328                     | \$ (64,476)                                    | \$ 33,619    |

**Three Months Ended September 30, 2008 <sup>(1)</sup>  
(In thousands)**

|   | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales                                       | \$                              | \$1,167,773                    | \$460,314                     | \$   | \$1,628,087  |
| Cost of goods sold                              |                                 | 952,945                        | 358,786                       |  | 1,311,731    |
| Selling, general and<br>administrative expenses | 1                               | 159,532                        | 51,729                        |  | 211,262      |
| Depreciation and amortization                   |                                 | 3,394                          | 3,149                         |  | 6,543        |
| Results of affiliates<br>operations             | 61,589                          | 31,873                         |                               | (93,462)                                       |              |
| Interest (income) expense, net                  | (2,140)                         | 4,811                          | 12,975                        |  | 15,646       |
| Other income                                    |                                 | (2,274)                        |                               |  | (2,274)      |
| Provision for income taxes                      |                                 | 19,649                         | 1,802                         |  | 21,451       |
| Net income                                      | \$63,728                        | \$ 61,589                      | \$ 31,873                     | \$ (93,462)                                    | \$ 63,728    |

- (1) The balances reported for the three months ended September 30, 2008 have been revised as a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009 (see Note 3).

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****Nine Months Ended September 30, 2009  
(In thousands)**

|   | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales                                       | \$                              | \$2,387,898                    | \$1,103,334                   | \$   | \$3,491,232  |
| Cost of goods sold                              |                                 | 1,936,150                      | 872,146                       |  | 2,808,296    |
| Selling, general and<br>administrative expenses | 24                              | 406,714                        | 118,920                       |  | 525,658      |
| Depreciation and<br>amortization                |                                 | 15,189                         | 4,737                         |  | 19,926       |
| Results of affiliates<br>operations             | 78,522                          | 100,539                        |                               | (179,061)                                      |              |
| Interest expense, net                           | 1,124                           | 46,463                         | (7,638)                       |  | 39,949       |
| Gain on debt exchange                           | (5,961)                         |                                |                               |  | (5,961)      |
| Other income                                    |                                 | (4,118)                        |                               |  | (4,118)      |
| Provision for income taxes                      |                                 | 9,517                          | 14,630                        |  | 24,147       |
| Net income                                      | \$ 83,335                       | \$ 78,522                      | \$ 100,539                    | \$ (179,061)                                   | \$ 83,335    |

**Nine Months Ended September 30, 2008 <sup>(1)</sup>  
(In thousands)**

|   | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales                                       | \$                              | \$3,345,416                    | \$1,335,630                   | \$   | \$4,681,046  |
| Cost of goods sold                              |                                 | 2,721,482                      | 1,037,234                     |  | 3,758,716    |
| Selling, general and<br>administrative expenses | 5                               | 490,669                        | 139,030                       |  | 629,704      |
| Depreciation and<br>amortization                |                                 | 10,708                         | 9,460                         |  | 20,168       |
| Results of affiliates<br>operations             | 156,668                         | 102,094                        |                               | (258,762)                                      |              |
| Interest (income) expense,<br>net               | (7,742)                         | 20,669                         | 36,859                        |  | 49,786       |
| Other income                                    |                                 | (7,657)                        |                               |  | (7,657)      |
| Provision for income taxes                      |                                 | 54,971                         | 10,953                        |  | 65,924       |

|            |            |            |            |             |            |
|------------|------------|------------|------------|-------------|------------|
| Net income | \$ 164,405 | \$ 156,668 | \$ 102,094 | \$(258,762) | \$ 164,405 |
|------------|------------|------------|------------|-------------|------------|

- (1) The balances reported for the nine months ended September 30, 2008 have been revised as a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009 (see Note 3).



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**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

**Nine Months Ended September 30, 2009**  
**(In thousands)**

|  | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net cash (used) provided by operating activities             | \$(39,415)                      | \$ 300,348                     | \$ 29,921                     | \$   | \$ 290,854   |
| Investing activities:  |                                 |                                |                               |  |              |
| Capital expenditures   |                                 | (9,900)                        | (605)                         |  | (10,505)     |
| Acquisition payments   |                                 | (214)                          |                               |  | (214)        |
| Equity income, net of distributions                          |                                 | 1,328                          |                               |  | 1,328        |
| Other  |                                 | 111                            |                               |  | 111          |
| Net cash used by investing activities                        |                                 | (8,675)                        | (605)                         |  | (9,280)      |
| Financing activities:  |                                 |                                |                               |  |              |
| Net repayments   | 38,942                          | (279,052)                      | (1,148)                       |  | (241,258)    |
| Equity transactions  | 479                             |                                |                               |  | 479          |
| Other  |                                 | (11,122)                       | (13,261)                      |  | (24,383)     |
| Net cash provided (used) by financing activities             | 39,421                          | (290,174)                      | (14,409)                      |  | (265,162)    |
| Effect of exchange rate changes on cash and cash equivalents |                                 |                                | 8,595                         |  | 8,595        |
| Net change in cash and cash equivalents                      | 6                               | 1,499                          | 23,502                        |  | 25,007       |
| Cash and cash equivalents at the beginning of year           |                                 | 18,453                         | 67,885                        |  | 86,338       |
| Cash and cash equivalents at the end of period               | \$ 6                            | \$ 19,952                      | \$ 91,387                     | \$   | \$ 111,345   |

**Nine Months Ended September 30, 2008 <sup>(1)</sup>**  
**(In thousands)**

|  | WESCO | WESCO | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|-------|-------|-------------------------------|--|--------------|
|--|-------|-------|-------------------------------|--|--------------|

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|  | International,<br>Inc. | Distribution,<br>Inc. |           |    |            |
|--|------------------------|-----------------------|-----------|----|------------|
| Net cash provided by operating activities                    | \$ 8,135               | \$ 196,725            | \$ 22,067 | \$ | \$ 226,927 |
| Investing activities:  |                        |                       |           |    |            |
| Capital expenditures   |                        | (25,607)              | (1,340)   |    | (26,947)   |
| Acquisition payments   |                        | (3,289)               |           |    | (3,289)    |
| Proceeds from sale of subsidiary                             |                        | 60,000                |           |    | 60,000     |
| Other  |                        | 3,794                 |           |    | 3,794      |
| Net cash provided (used) by investing activities             |                        | 34,898                | (1,340)   |    | 33,558     |
| Financing activities:  |                        |                       |           |    |            |
| Net borrowings (repayments)                                  | 51,910                 | (190,204)             | (1,021)   |    | (139,315)  |
| Equity transactions  | (60,038)               |                       |           |    | (60,038)   |
| Other  |                        | (26,602)              | (45)      |    | (26,647)   |
| Net cash used by financing activities                        | (8,128)                | (216,806)             | (1,066)   |    | (226,000)  |
| Effect of exchange rate changes on cash and cash equivalents |                        |                       | (3,512)   |    | (3,512)    |
| Net change in cash and cash equivalents                      | 7                      | 14,817                | 16,149    |    | 30,973     |
| Cash and cash equivalents at the beginning of year           | (7)                    | 32,140                | 40,164    |    | 72,297     |
| Cash and cash equivalents at the end of period               | \$                     | \$ 46,957             | \$ 56,313 | \$ | \$ 103,270 |

(1) The balances reported for net cash provided by operating activities for the nine months ended September 30, 2008 have been revised as a result of the retrospective application of new FASB guidance related to convertible

debt instruments  
on January 1,  
2009 (see Note  
3).

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

*The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and WESCO International Inc.'s Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its Current Report on Form 8-K dated July 27, 2009.*

**Company Overview**

We are a full-line distributor of electrical supplies and equipment and a provider of integrated supply procurement services. We have approximately 380 full service branches and seven distribution centers located in the United States, Canada, Mexico, the United Kingdom, Nigeria, United Arab Emirates, Singapore, Australia and China. We serve approximately 115,000 customers worldwide, offering over 1,000,000 products from more than 19,000 suppliers. Our diverse customer base includes a wide variety of industrial companies; contractors for industrial, commercial and residential projects; utility companies, and commercial, institutional and governmental customers. Approximately 85% of our net sales are generated from operations in the United States, 12% from Canada and the remainder from other countries.

Our financial results for the first nine months of 2009 reflect weak conditions in our markets served, lower commodity prices, unfavorable foreign currency exchange rates, and the absence of hurricane restoration activities, to which we responded with aggressive cost reduction actions. Sales decreased \$1,189.8 million, or 25.4%, over the same period last year. Cost of goods sold as a percentage of net sales was 80.4% and 80.3% for the first nine months of 2009 and 2008, respectively. Operating income decreased by \$135.1 million, or 49.6%, primarily from the decrease in sales resulting from the decline in end market activity. Net income for the nine months ended September 30, 2009 and 2008 was \$83.3 million and \$164.4 million, respectively.

**Cash Flow**

We generated \$290.9 million in operating cash flow for the first nine months of 2009. Included in this amount was net income of \$83.3 million, a decrease in trade and other receivables of \$148.9 million, a decrease in inventory of \$117.1 million and a decrease in accounts payable of \$69.7 million. Investing activities were primarily comprised of capital expenditures, which totaled \$10.5 million for the first nine months of 2009. Financing activities consisted of borrowings and repayments of \$250.7 million and \$243.2 million, respectively, related to our revolving credit facility, and net repayments of \$245.0 million related to our Receivables Facility.

**Financing Availability**

As of September 30, 2009, we had \$355.0 million in total available borrowing capacity. The available borrowing capacity under our revolving credit facility was \$89.0 million, of which \$25.5 million is the U.S. sub-facility borrowing limit and \$63.5 million is the Canadian sub-facility borrowing limit. The revolving credit facility does not mature until November 1, 2013. The available borrowing capacity under the Receivables Facility, which was amended and restated on April 13, 2009, was \$266.0 million at September 30, 2009. The Receivables Facility matures on April 13, 2012. In addition, on August 27, 2009, we completed an exchange offer pursuant to which we issued \$345.0 million aggregate principal amount of the 2029 Debentures in exchange for approximately \$299.7 million and \$57.7 million aggregate principal amounts of our outstanding 2026 Debentures and 2025 Debentures, respectively. Our 2025 Debentures and 2029 Debentures cannot be redeemed or repurchased until October 2010 and September 2016, respectively. For further discussion related to the Debentures, refer to Notes 3 and 7 of the Notes to our Condensed Consolidated Financial Statements. We increased our cash by \$25.0 million to \$111.3 million at September 30, 2009, after taking into account \$240.3 million of net debt repayments and \$10.5 million of capital expenditures. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. For further discussion refer to Liquidity and Capital Resources.

**Outlook**

We believe that improvements made to our operations and capital structure and actions taken in 2008 and the first nine months of 2009, including the amendment and restatement of the Receivables Facility in April, and the convertible debt exchange in August, have helped position the Company to operate effectively in the lower level of activity being experienced in our end markets. In the fourth quarter of 2009, we anticipate continued contraction in the

nonresidential construction market; however, we expect that our industrial end markets will begin to strengthen and that we will benefit from our sales and marketing initiatives. When these factors are combined with traditional fourth quarter market seasonality, we would expect a 4% to 6% sequential decline in quarterly sales. Despite competitive pressures, we expect to maintain fourth quarter gross margins at the levels experienced in the second and third quarters. While we will not reduce our focus on cost controls in the fourth quarter, we expect to experience some negative operating expense leverage due to lower sales.

**Table of Contents****Critical Accounting Policies and Estimates**

Our critical accounting policies are described in the notes to our consolidated financial statements for the year ended December 31, 2008 contained in our Current Report on Form 8-K dated July 27, 2009. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been included in the notes to our Condensed Consolidated Financial Statements for the period ended September 30, 2009.

**Results of Operations***Third Quarter of 2009 versus Third Quarter of 2008*

The following table sets forth the percentage relationship to net sales of certain items in our condensed consolidated statements of income for the periods presented:

|  | <b>Three Months Ended</b> |                           |
|--|---------------------------|---------------------------|
|  | <b>September 30,</b>      |                           |
|  | <b>2009</b>               | <b>2008<sup>(1)</sup></b> |
| Net sales                                    | 100.0%                    | 100.0%                    |
| Cost of goods sold                           | 80.8                      | 80.5                      |
| Selling, general and administrative expenses | 14.6                      | 13.0                      |
| Depreciation and amortization                | 0.6                       | 0.4                       |
| Income from operations                       | 4.0                       | 6.1                       |
| Interest expense                             | 1.2                       | 1.0                       |
| Gain on debt exchange                        | (0.5)                     |                           |
| Other income                                 | (0.1)                     | (0.1)                     |
| Income before income taxes                   | 3.4                       | 5.2                       |
| Provision for income taxes                   | 0.5                       | 1.3                       |
| Net income                                   | 2.9%                      | 3.9%                      |

(1) As a result of the retrospective application of new FASB guidance related to convertible debt instruments on January 1, 2009, interest expense, income before income taxes, provision for income taxes and net income were revised for the three months ended September 30, 2008 (see Note 3 to the

consolidated  
financial  
statements).

Net sales in the third quarter of 2009 totaled \$1,152.4 million versus \$1,628.1 million in the comparable period for 2008, a decrease of \$475.7 million, or 29.2%, over the same period last year. Sales were negatively impacted by weak market conditions, lower commodity prices, the absence of hurricane restoration activity and unfavorable foreign currency exchange rates.

Cost of goods sold for the third quarter of 2009 was \$931.5 million versus \$1,311.7 million for the comparable period in 2008, and cost of goods sold as a percentage of net sales was 80.8% in 2009 versus 80.5% in 2008. The increase in the cost of goods sold percentage was primarily due to an increase in inventory reserves and lower supplier volume rebate rates.

Selling, general and administrative ( SG&A ) expenses in the third quarter of 2009 totaled \$168.3 million versus \$211.3 million in last year's comparable quarter. The decrease in SG&A expenses is due to aggressive cost reduction actions. As a percentage of net sales, SG&A expenses were 14.6% in the third quarter of 2009 compared to 13.0% in the third quarter of 2008, reflecting a decrease in sales volume.

SG&A payroll expenses for the third quarter of 2009 of \$111.1 million decreased by \$30.6 million compared to the same quarter in 2008. The decrease in payroll expenses was primarily due to a decrease in commission and incentive costs of \$13.0 million, a decrease in salaries and wages of \$12.8 million, a decrease in benefit costs of \$2.3 million and a decrease in temporary labor costs of \$1.9 million. Other SG&A related payroll expenses decreased \$0.6 million.

The remaining SG&A expenses for the third quarter of 2009 of \$57.2 million decreased by approximately \$12.8 million compared to same quarter in 2008. Included in this period's SG&A expenses was a decrease in travel costs of \$3.2 million, a decrease in transportation costs of \$2.5 million, and a decrease in other operating expenses of \$2.3 million due to the decrease in sales volume. In addition, there was a \$1.7 million reduction in bad debt expense due to a one time charge recorded in last years comparable period. Other SG&A expenses decreased \$3.1 million.

Depreciation and amortization for the third quarter of 2009 was \$6.4 million versus \$6.5 million in last year's comparable quarter. The decrease is due to the reduction in capital expenditures in 2009.

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Interest expense totaled \$13.6 million for the third quarter of 2009 versus \$15.6 million in last year's comparable quarter, a decrease of 13.1%. Interest expense for the third quarter of 2009 was impacted by both the reduction in interest rates and the decrease in debt. On January 1, 2009, we retrospectively applied the provisions of new guidance concerning convertible debt instruments to our 2025 Debentures and 2026 Debentures, and on August 27, 2009 we applied the provisions of the new guidance to our 2029 Debentures. This change in accounting treatment results in an increase in non-cash interest reported in the financial statements. Interest expense for the Debentures totaled \$6.5 million and \$5.9 million for the three months ended September 30, 2009 and 2008, respectively, of which \$2.9 million and \$3.6 million, respectively, was non-cash interest.

Gain on debt exchange totaled \$6.0 million for the third quarter of 2009. On August 27, 2009, we completed an exchange offer pursuant to which we issued \$345.0 million aggregate principal amount of 2029 Debentures in exchange for approximately \$299.7 million and \$57.7 million aggregate principal amounts of our outstanding 2026 Debentures and 2025 Debentures, respectively. The gain included the write-off of debt issue costs.

Other income totaled \$1.4 million for the third quarter of 2009 versus \$2.3 million in the comparable period for 2008. We account for our investment in the LADD joint venture on an equity basis, and earnings are reported as other income in the consolidated statement of income. The decrease in other income is due to the decrease in the joint venture's income.

Income tax expense totaled \$6.3 million in the third quarter of 2009, and the effective tax rate was 15.8% compared to 25.2% in the same quarter in 2008. The decrease in the effective tax rate is due to a reduction in projected income, the revaluation of deferred tax items and the impact from foreign jurisdictions.

For the third quarter of 2009, net income decreased by \$30.1 million to \$33.6 million compared to \$63.7 million in the third quarter of 2008. Diluted earnings per share was \$0.79 for the third quarter of 2009 compared with \$1.48 per diluted share for the third quarter of 2008. The decrease in net income was primarily due to the decline in sales attributable to the weak market conditions.

*Nine Months Ended September 30, 2009 versus Nine Months Ended September 30, 2008*

The following table sets forth the percentage relationship to net sales of certain items in our condensed consolidated statements of income for the periods presented:

|  | <b>Nine Months Ended<br/>September 30,</b> |                           |
|--|--|---------------------------|
|  | <b>2009</b>                                | <b>2008<sup>(1)</sup></b> |
| Net sales                                    | 100.0%                                     | 100.0%                    |
| Cost of goods sold                           | 80.4                                       | 80.3                      |
| Selling, general and administrative expenses | 15.1                                       | 13.5                      |
| Depreciation and amortization                | 0.6  | 0.4                       |
| Income from operations                       | 3.9  | 5.8                       |
| Interest expense                             | 1.1  | 1.1                       |
| Gain on debt exchange                        | (0.2)                                      |                           |
| Other income                                 | (0.1)                                      | (0.2)                     |
| Income before income taxes                   | 3.1  | 4.9                       |
| Provision for income taxes                   | 0.7  | 1.4                       |
| Net income                                   | 2.4%                                       | 3.5%                      |

(1) As a result of the retrospective application of



new FASB guidance related to convertible debt instruments on January 1, 2009, interest expense, income before income taxes, provision for income taxes and net income were revised for the nine months ended September 30, 2008 (see Note 3 to the consolidated financial statements).

Net sales in the first nine months of 2009 totaled \$3,491.2 million versus \$4,681.0 million in the comparable period for 2008, a decrease of \$1,189.8 million, or 25.4%, over the same period last year. Sales were negatively impacted by weak market conditions, lower commodity prices, unfavorable foreign currency exchange rates, the absence of hurricane restoration activity and one less workday in the first nine months of 2009 compared to the same period in 2008.

Cost of goods sold for the first nine months of 2009 was \$2,808.3 million versus \$3,758.7 million for the comparable period in 2008, and cost of goods sold as a percentage of net sales was 80.4% in 2009 versus 80.3% in 2008. The increase in the cost of goods sold percentage was primarily due to lower supplier volume rebate rates.

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SG&A expenses in the first nine months of 2009 totaled \$525.7 million versus \$629.7 million in last year's comparable period. The decrease in SG&A expenses is due to aggressive cost reduction actions. As a percentage of net sales, SG&A expenses were 15.1% in the first nine months of 2009 compared to 13.5% in the first nine months of 2008, reflecting a decrease in sales volume.

SG&A payroll expenses for the first nine months of 2009 of \$357.1 million decreased by \$72.4 million compared to the same period in 2008. The decrease in payroll expenses was primarily due to a decrease in commission and incentive costs of \$26.7 million, a decrease in salaries and wages of \$25.9 million, a decrease in benefit costs of \$13.2 million and a decrease in temporary labor costs of \$5.3 million. Other SG&A related payroll expenses decreased \$1.3 million.

The remaining SG&A expenses for the first nine months of 2009 of \$168.6 million decreased by approximately \$32.3 million compared to same period in 2008. Included in this period's SG&A expenses was a decrease in transportation costs of \$9.3 million, a decrease in travel costs of \$8.9 million, a decrease in other operating expenses of \$6.5 million and a decrease in supplies costs of \$3.0 million due to the decrease in sales volume. Other SG&A expenses decreased \$4.6 million.

Depreciation and amortization for the first nine months of 2009 was \$19.9 million versus \$20.2 million in last year's comparable period. The decrease is due to the reduction in capital expenditures in 2009.

Interest expense totaled \$39.9 million for the first nine months of 2009 versus \$49.8 million in last year's comparable period, a decrease of 19.9%. Interest expense for the first nine months of 2009 was impacted by both the reduction in interest rates and the decrease in debt. On January 1, 2009, we retrospectively applied the provisions of new guidance concerning convertible debt instruments to our 2025 Debentures and 2026 Debentures, and on August 27, 2009 we applied the provisions of the new guidance to our 2029 Debentures. This change in accounting treatment results in an increase in non-cash interest reported in the financial statements. Interest expense for the Debentures totaled \$18.8 million and \$17.8 million for the nine months ended September 30, 2009 and 2008, respectively, of which \$10.6 million and \$10.9 million, respectively, was non-cash interest.

Gain on debt exchange totaled \$6.0 million for the third quarter of 2009. On August 27, 2009, we completed an exchange offer pursuant to which we issued \$345.0 million aggregate principal amount of 2029 Debentures in exchange for approximately \$299.7 million and \$57.7 million aggregate principal amounts of our outstanding 2026 Debentures and 2025 Debentures, respectively. The gain included the write-off of debt issue costs.

Other income totaled \$4.1 million for the first nine months of 2009 versus \$7.7 million in the comparable period for 2008. We account for our investment in the LADD joint venture on an equity basis, and earnings are reported as other income in the consolidated statement of income. The decrease in other income is due to the decrease in the joint venture's income.

Income tax expense totaled \$24.1 million for the first nine months of 2009, and the effective tax rate was 22.5% compared to 28.6% in the same period in 2008. The decrease in the effective tax rate is due to the revaluation of deferred tax items and the impact from foreign jurisdictions.

For the first nine months of 2009, net income decreased by \$81.1 million to \$83.3 million compared to \$164.4 million for the first nine months of 2008. Diluted earnings per share was \$1.95 for the first nine months of 2009 compared with \$3.77 per diluted share for the first nine months of 2008. The decrease in net income was primarily due to the decline in sales attributable to the weak market conditions.

**Liquidity and Capital Resources**

Total assets were \$2.5 billion at September 30, 2009, compared to \$2.7 billion at December 31, 2008. The \$221.1 million decrease in total assets was principally attributable to the decrease in accounts receivable and inventory of \$127.9 million and \$110.4 million, respectively. These reductions were due to the decrease in sales activity. Total liabilities at September 30, 2009 compared to December 31, 2008 decreased by \$427.4 million to \$1.5 billion. Contributing to the decrease in total liabilities was a decrease in short-term and long-term debt of \$395.3 million; a decrease in accounts payable of \$61.7 million due to reduced purchasing activity; and a decrease in accrued payroll and benefit costs of \$21.1 million due to staffing reductions and the payment of the 2008 management incentive compensation. These decreases were partially offset by an increase in deferred income taxes of \$62.7 million due to the convertible debt exchange. Stockholders' equity increased 27.3% to \$961.4 million at September 30, 2009,

compared with \$755.1 million at December 31, 2008, primarily as a result of the convertible debt exchange which resulted in a net increase to additional capital of \$91.6 million. Also contributing to the increase in stockholder's equity was net earnings of \$83.3 million, foreign currency translation adjustments of \$21.4 million and stock-based compensation expense of \$9.8 million.

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Our liquidity needs arise from working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2009, we had \$89.0 million in available borrowing capacity under our revolving credit facility, which combined with our \$266.0 million of available borrowing capacity under our Receivables Facility and our invested cash provides us with liquidity of \$439.2 million. We believe cash provided by operations and financing activities will be adequate to cover our current operational and business needs.

The worldwide financial turmoil has had significant impacts on global credit markets. We communicate on a regular basis with our lenders regarding our financial and working capital performance and liquidity position. We were in compliance with all covenants and restrictions as of September 30, 2009. On April 13, 2009, we entered into a \$400 million amended and restated receivables purchase agreement. As previously mentioned, the amended and restated Receivables Facility is not subject to renewal until April 2012. In addition, on August 27, 2009, we completed an exchange offer pursuant to which we issued \$345.0 million aggregate principal amount of the 2029 Debentures in exchange for approximately \$299.7 million and \$57.7 million aggregate principal amounts of our outstanding 2026 Debentures and 2025 Debentures, respectively. Our 2025 Debentures and 2029 Debentures cannot be redeemed or repurchased until October 2010 and September 2016, respectively. In the event that our 2025 Debentures are redeemed in October 2010, we believe that we will have ample financial capacity to handle such funding requirement. In conjunction with the convertible debt exchange, Moody's Investor Services and Standard & Poor's affirmed our credit rating and stable outlook.

We did not note any conditions or events during the third quarter of 2009 requiring an interim evaluation of impairment of goodwill. We will perform our annual impairment testing of goodwill and indefinite-lived intangible assets during the fourth quarter.

A possible indicator of impairment is the relationship of a company's market capitalization to its book value. As of September 30, 2009, our market capitalization exceeded our book value. The persistence or further acceleration of the recent downturn in the global economic conditions and turbulence in financial markets could have a further negative impact on our market capitalization and/or financial performance. Two reporting units comprised of recent acquisitions, which have goodwill and trademarks totaling \$284.6 million, are sensitive to a further decline in financial performance. We are taking actions to improve our future financial performance; however, we cannot predict whether or not there will be certain events that could adversely affect the reported value of goodwill and trademarks, which totaled \$901.2 million and \$900.7 million at September 30, 2009 and December 31, 2008, respectively.

Over the next several quarters, we expect to maintain working capital productivity, and it is expected that excess cash will be directed primarily at debt reduction. Our near term focus will continue to be on our cost structure, right sizing of the business and maintaining ample liquidity and credit availability. We believe our balance sheet and ability to generate ample cash flow provides us with a durable business model and should allow us to fund expansion needs and growth initiatives in this time of economic contraction. To the extent that operating cash flow is materially lower than current levels or external financing sources are not available on terms competitive with those currently available, including increases in interest rates, future liquidity may be adversely affected.

*Cash Flow*

*Operating Activities.* Cash provided by operating activities for the first nine months of 2009 totaled \$290.9 million compared with \$226.9 million of cash generated for the first nine months of 2008. Cash provided by operating activities in the first nine months of 2009 included net income of \$83.3 million and adjustments to net income totaling \$43.6 million. The increased level of cash flow is primarily attributable to a decrease in trade and other receivables of \$148.9 million and a decrease in inventory of \$117.1 million resulting from the decrease in sales. Cash used by operating activities in the first nine months of 2009 included: \$69.7 million for the decrease in accounts payable, resulting from the decrease in purchasing activity; \$21.4 million for the decrease in accrued payroll and benefit costs; \$8.6 million for the increase in prepaid expenses and other current assets; and \$2.3 million for the decrease in other current and noncurrent liabilities. In the first nine months of 2008, primary sources of cash were net income of \$164.4 million and adjustments to net income totaling \$27.1 million; an increase in accounts payable of \$129.8 million, resulting from the increase in the cost of sales; and a reduction in prepaid and other current assets of \$23.3 million. Cash used by operating activities in the first nine months of 2008 included: \$99.4 million for the increase in trade and other receivables, resulting from the increase in sales; \$14.3 million for the increase in inventory;

\$2.7 million for the decrease in accrued payroll and benefit costs; and \$1.3 million for the decrease in other current and noncurrent liabilities.

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*Investing Activities.* Net cash used by investing activities for the first nine months of 2009 was \$9.3 million, compared with \$33.6 million of net cash provided during the first nine months of 2008. Included in 2008 were proceeds of \$60.0 million from the partial divestiture of the LADD operations. Capital expenditures were \$10.5 million and \$26.9 million in the first nine months of 2009 and 2008, respectively. The decrease in capital expenditures in 2009 was due to cash management initiatives.

*Financing Activities.* Net cash used by financing activities for the first nine months of 2009 and 2008 was \$265.2 million and \$226.0 million, respectively. During the first nine months of 2009, borrowings and repayments of long-term debt of \$250.7 million and \$245.2 million, respectively, were made to our revolving credit facility. Borrowings and repayments of \$55.0 million and \$300.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$1.1 million to our mortgage financing facility. During the first nine months of 2008, borrowings and repayments of long-term debt of \$523.4 million and \$681.7 million, respectively, were made to our revolving credit facility. Borrowings and repayments of \$100.0 million and \$80.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$1.0 million to our mortgage financing facility. In addition, during the first nine months of 2008, we purchased shares of our common stock under our share repurchase plan for approximately \$74.8 million. The exercise of stock-based compensation arrangements resulted in proceeds of \$0.3 million and \$9.4 million during the first nine months of 2009 and 2008, respectively.

*Contractual Cash Obligations and Other Commercial Commitments*

There were no material changes in our contractual obligations and other commercial commitments that would require an update to the disclosure provided in our Current Report on Form 8-K dated July 27, 2009, other than the Receivables Facility disclosure in Note 6 and the convertible debt disclosure in Note 7 to the condensed consolidated financial statements. Management believes that cash generated from operations, together with amounts available under our revolving credit facility and the Receivables Facility, will be sufficient to meet our working capital, capital expenditures and other cash requirements for the foreseeable future. There can be no assurances, however, that this will be or will continue to be the case.

**Inflation**

The rate of inflation affects different commodities, the cost of products purchased and ultimately the pricing of our different products and product classes to our customers. We experienced price deflation during the nine months ended September 30, 2009, which comprised an estimated \$105.0 million of our sales decline.

**Seasonality**

Our operating results are not significantly affected by certain seasonal factors. Sales during the first and fourth quarter are generally less than 5% below the sales of the second and third quarters due to reduced level of activity during the winter months of December, January and February. Sales typically increase beginning in March with slight fluctuations per month through December.

**Impact of Recently Issued Accounting Standards**

In June 2009, the FASB issued new guidance concerning the organization of authoritative guidance under U.S. GAAP. This new guidance created the Codification. The Codification does not change current U.S. GAAP but, is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. The Codification supersedes all existing accounting and reporting standards and all other accounting literature not included in the Codification is nonauthoritative. The Codification became effective for us during the interim period ending September 30, 2009 and did not have an impact on our financial position, results of operations or cash flows.

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**Forward-Looking Statements**

From time to time in this report and in other written reports and oral statements, references are made to expectations regarding our future performance. When used in this context, the words anticipates, plans, believes, estimates, intends, expects, projects, will and similar expressions may identify forward-looking statements, although not all forward-looking statements contain such words. Such statements including, but not limited to, our statements regarding our business strategy, growth strategy, productivity and profitability enhancement, new product and service introductions and liquidity and capital resources are based on management's beliefs, as well as on assumptions made by, and information currently available to, management, and involve various risks and uncertainties, certain of which are beyond our control. Our actual results could differ materially from those expressed in any forward-looking statement made by or on our behalf. In light of these risks and uncertainties there can be no assurance that the forward-looking information will in fact prove to be accurate. Factors that might cause actual results to differ from such forward-looking statements include, but are not limited to, an increase in competition, the amount of outstanding indebtedness, the availability of appropriate acquisition opportunities, availability of key products, functionality of information systems, international operating environments, global and national economic and market factors and other risks that are described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2008, or other documents subsequently filed with the Securities and Exchange Commission. We have undertaken no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

There have not been any material changes to our exposures to market risk during the quarter ended September 30, 2009 that would require an update to the disclosures provided in our Current Report on Form 8-K dated July 27, 2009.

**Item 4. Controls and Procedures**

*Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

*Changes in Internal Control Over Financial Reporting*

The financial results for the three and nine month periods ended September 30, 2009, were prepared using a new financial reporting system. We believe the necessary steps have been implemented regarding the operation of internal controls related to our information technology systems and financial statement close process. We will include the internal control over our new financial reporting system and financial statement close process in our annual report on internal controls over financial reporting as of December 31, 2009. There were no other changes during the third quarter of 2009 in our internal control over financial reporting identified in connection with management's evaluation of the effectiveness of our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**Part II Other Information**

**Item 1. Legal Proceedings**

From time to time, a number of lawsuits and claims have been or may be asserted against us relating to the conduct of our business, including routine litigation relating to commercial and employment matters. The outcome of any litigation cannot be predicted with certainty, and some lawsuits may be determined adversely to us. However, management does not believe, based on information presently available, that the ultimate outcome of any such pending matters is likely to have a material adverse effect on our financial condition or liquidity, although the resolution in any quarter of one or more of these matters may have a material adverse effect on our results of operations for that period.

As previously reported in our Annual Report on Form 10-K, we are a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that we sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of \$52 million. We have denied any liability, continue to believe that we have meritorious defenses and intend to vigorously defend ourselves against these allegations. Accordingly, no liability is recorded for this matter as of September 30, 2009.

Information relating to legal proceedings is included in Note 9, Commitments and Contingencies of the Notes to the Condensed Consolidated Financial Statements and is incorporated herein by reference.

**Item 6. Exhibits**

(a) *Exhibits*

- 3.1 Amended and Restated By-Laws of WESCO International, Inc., effective as of September 28, 2009 (incorporated by reference to Exhibit 3.1 of Current Report on Form 8-K dated September 28, 2009).
  
- 10.1 Amended and Restated Employment Agreement, dated as of September 1, 2009, between WESCO International, Inc. and Roy W. Haley.
  
- 10.2 Amended and Restated Employment Agreement, dated as of September 1, 2009, between WESCO International, Inc. and John J. Engel.
  
- 10.3 Amended and Restated Employment Agreement, dated as of September 1, 2009, between WESCO International, Inc. and Stephen A. Van Oss.
  
- 10.4 First Amendment to Third Amended and Restated Receivables Purchase Agreement, dated August 31, 2009.
  
- 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act.
  
- 31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act.
  
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**Signatures**

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

WESCO International, Inc.

Date: November 6, 2009

/s/ Richard P. Heyse

Richard P. Heyse  
Vice President and Chief Financial  
Officer

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