

WESCO INTERNATIONAL INC  
Form 10-Q  
November 01, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2011**

**Or**

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

**FOR THE TRANSITION PERIOD from            to**

**Commission file number 001-14989**

**WESCO International, Inc.**

**(Exact name of registrant as specified in its charter)**

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**225 West Station Square Drive**  
**Suite 700**  
**Pittsburgh, Pennsylvania 15219**  
(Address of principal executive offices)

**25-1723342**  
(IRS Employer  
Identification No.)

**(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

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  (Do not check if a smaller reporting company)

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 October 27, 2011, WESCO International, Inc. had 43,258,471 shares of common stock outstanding.

**Table of Contents**

**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

**Table of Contents**

	Page
<b>PART I FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements</b>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Income for the three months and nine months ended September 30, 2011 and 2010 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	5
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	17
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	23
<b>Item 4. <u>Controls and Procedures</u></b>	23
<b><u>PART II OTHER INFORMATION</u></b>	
<b>Item 1. <u>Legal Proceedings</u></b>	24
<b>Item 6. <u>Exhibits</u></b>	24
<u>Signatures and Certifications</u>	25
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
Exhibit 101	

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(unaudited)

<i>Amounts in thousands, except share data</i>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 94,049	\$ 53,577
Trade accounts receivable, net of allowance for doubtful accounts of \$21,806 and \$18,562 in 2011 and 2010, respectively	950,435	792,681
Other accounts receivable	32,239	37,223
Inventories, net	631,421	588,848
Current deferred income taxes	9,384	3,046
Income taxes receivable	17,097	18,146
Prepaid expenses and other current assets	27,263	20,165
<b>Total current assets</b>	<b>1,761,888</b>	<b>1,513,686</b>
Property, buildings and equipment, net	129,482	118,045
Intangible assets, net	150,018	160,307
Goodwill	987,358	985,714
Deferred income taxes	25,230	35,887
Other assets	13,448	13,135
<b>Total assets</b>	<b>\$ 3,067,424</b>	<b>\$ 2,826,774</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 646,595	\$ 537,505
Accrued payroll and benefit costs	63,992	66,931
Current portion of long-term debt	5,206	3,988
Bank overdrafts	40,589	27,590
Current deferred income taxes	4,593	4,593
Other current liabilities	61,766	67,626
<b>Total current liabilities</b>	<b>822,741</b>	<b>708,233</b>
Long-term debt, net of discount of \$176,559 and \$178,427 in 2011 and 2010, respectively	725,669	725,893
Deferred income taxes	215,658	210,876
Other noncurrent liabilities	19,849	33,178
<b>Total liabilities</b>	<b>\$ 1,783,917</b>	<b>\$ 1,678,180</b>
Commitments and contingencies (Note 8)		
<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, 56,858,648 and 56,576,250 shares issued and 43,291,800 and 43,009,941 shares outstanding in 2011 and 2010, respectively	569	566
Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2011 and 2010, respectively	43	43
Additional capital	1,031,747	1,018,683
Retained earnings	836,940	697,676
Treasury stock, at cost; 17,906,279 and 17,905,740 shares in 2011 and 2010, respectively	(591,740)	(591,007)

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Accumulated other comprehensive income	5,948	22,633
Total stockholders' equity	1,283,507	1,148,594
Total liabilities and stockholders' equity	\$ 3,067,424	\$ 2,826,774

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

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(unaudited)

<i>Amounts in thousands, except per share data</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 1,580,376	\$ 1,324,555	\$ 4,536,196	\$ 3,732,275
Cost of goods sold (excluding depreciation and amortization below)	1,264,745	1,066,769	3,627,666	3,004,121
Selling, general and administrative expenses	216,205	190,577	644,176	559,592
Depreciation and amortization	7,674	5,963	22,861	17,684
<b>Income from operations</b>	<b>91,752</b>	<b>61,246</b>	<b>241,493</b>	<b>150,878</b>
Interest expense, net	15,079	13,748	41,651	41,678
Other income				(4,284)
<b>Income before income taxes</b>	<b>76,673</b>	<b>47,498</b>	<b>199,842</b>	<b>113,484</b>
Provision for income taxes	22,783	13,837	58,440	32,830
<b>Net income</b>	<b>\$ 53,890</b>	<b>\$ 33,661</b>	<b>\$ 141,402</b>	<b>\$ 80,654</b>
<b>Earnings per share :</b>				
Basic	\$ 1.24	\$ 0.79	\$ 3.27	\$ 1.90
Diluted	\$ 1.11	\$ 0.74	\$ 2.84	\$ 1.79

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

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited)

<i>Amounts in thousands</i>	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating Activities:</b>		
Net income	\$ 141,402	\$ 80,654
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,861	17,684
Amortization of debt issuance costs	3,838	1,982
Amortization of debt discount	1,850	3,730
Deferred income taxes	7,702	(4,551)
Stock-based compensation expense	12,360	11,452
Loss (gain) on sale of property, buildings and equipment	171	(263)
Asset impairment charge		3,793
Equity income, net of distributions of \$0 and \$1,864 in 2011 and 2010, respectively		(2,421)
Excess tax benefit from stock-based compensation	(3,523)	(713)
Interest related to uncertain tax positions	1,581	551
Changes in assets and liabilities		
Trade and other receivables, net	(154,686)	(149,569)
Inventories, net	(44,155)	(40,859)
Prepaid expenses and other current assets	(998)	3,352
Accounts payable	110,550	118,350
Accrued payroll and benefit costs	(2,686)	20,624
Other current and noncurrent liabilities	(24,439)	11,701
<b>Net cash provided by operating activities</b>	<b>71,828</b>	<b>75,497</b>
<b>Investing Activities:</b>		
Capital expenditures	(23,966)	(10,123)
Acquisition payments	(8,166)	(14,344)
Proceeds from sale of subsidiary		40,000
Equity distribution		4,054
Collection of note receivable		15,000
Proceeds from sale of assets	86	925
<b>Net cash (used) provided by investing activities</b>	<b>(32,046)</b>	<b>35,512</b>
<b>Financing Activities:</b>		
Proceeds from issuance of long-term debt	464,981	716,474
Repayments of long-term debt	(464,900)	(830,798)
Debt issuance costs	(4,248)	(2,049)
Proceeds from the exercise of stock options	210	742
Excess tax benefit from stock-based compensation	3,523	713
Purchases of common stock	(6,250)	(249)
Increase (decrease) in bank overdrafts	12,999	(6,545)
Payments on capital lease obligations	(1,110)	(1,234)
<b>Net cash provided (used) by financing activities</b>	<b>5,205</b>	<b>(122,946)</b>
Effect of exchange rate changes on cash and cash equivalents	(4,515)	2,728

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Net change in cash and cash equivalents	40,472	(9,209)
Cash and cash equivalents at the beginning of period	53,577	112,329
Cash and cash equivalents at the end of period	\$ 94,049	\$ 103,120

**Supplemental disclosures:**

Non-cash investing and financing activities:

Property, buildings and equipment acquired through capital leases	\$ 210	\$ 285
Issuance of treasury stock	960	

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



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**Table of Contents**

**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**1. ORGANIZATION**

WESCO International, Inc. and its subsidiaries (collectively, "WESCO"), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical, industrial and communications maintenance, repair and operating ("MRO") and original equipment manufacturers ("OEM") products, construction materials, and advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 100,000 customers globally, through approximately 400 full service branches and seven distribution centers located primarily in the United States and Canada, with additional locations in Mexico, United Kingdom, Singapore, China, Australia and the United Arab Emirates and a commercial presence in six other countries.

**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 2010 Annual Report on Form 10-K filed with the SEC. The December 31, 2010 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, 2011, the unaudited condensed consolidated statements of income for the nine months ended September 30, 2011 and 2010, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010, 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.

*Fair Value of Financial Instruments*

With the exception of fixed rate long-term debt, the reported carrying amounts of WESCO's financial assets and liabilities approximate their fair values. At September 30, 2011, the par value of WESCO's fixed rate long-term debt was \$495.2 million and the fair value was approximately \$640.4 million. At December 31, 2010, the par value of WESCO's fixed rate long-term debt was \$495.2 million and the fair value was approximately \$860.2 million. The fair value of WESCO's long-term debt was estimated based on market price quotes.

*Recent Accounting Pronouncements*

In June 2011, the Financial Accounting Standards Board (the "FASB") issued new disclosure guidance related to the presentation of the statement of comprehensive income. This guidance provides an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements; the current option to report other comprehensive income and its components in the statement of changes in stockholders' equity was eliminated. This accounting standard is effective for periods beginning on or after December 15, 2011. Other than the change in presentation, this accounting standard will not have an impact on WESCO's financial position, results of operations or cash flows.

In September 2011, the FASB issued guidance to amend and simplify the rules related to testing goodwill for impairment. The revised guidance allows an entity to make an initial qualitative evaluation, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. Adoption of this guidance is not expected to have a material impact on WESCO's financial position, results of operations or cash flows.



**Table of Contents**

In September 2011, the FASB issued an accounting update that requires additional qualitative and quantitative disclosures by employers that participate in multi-employer pension plans. The amendments are effective for annual periods for the fiscal years ending after December 15, 2011, with early adoption permitted. Adoption of this guidance is not expected to have a material impact on WESCO's financial position, results of operations or cash flows.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to WESCO's financial position, results of operations or cash flows.

**3. 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 and nine month periods ended September 30, 2011 and 2010, WESCO granted the following stock-settled stock appreciation rights and restricted stock units at the following weighted average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Stock-settled appreciation rights granted	15,156	684,949	399,330	708,949
Restricted stock units		153,318	53,852	153,318
Risk free interest rate	1.0 %	1.8 %	2.3 %	1.8 %
Expected life	5.0 years	5.0 years	5.0 years	5.0 years
Expected volatility	48 %	49 %	49 %	49 %

For the three and nine months ended September 30, 2011, the weighted average fair value per stock-settled appreciation right granted was \$16.42 and \$26.47, respectively. For the three and nine months ended September 30, 2010, the weighted average fair value per stock-settled appreciation right granted was \$14.69 and \$14.71, respectively. For the nine months ended September 30, 2011, the weighted average fair value per restricted stock unit granted was \$60.05. For the three and nine months ended September 30, 2010, the weighted average fair value per restricted stock unit granted was \$33.05.

WESCO recognized \$2.9 million and \$4.3 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2011 and 2010, respectively. WESCO recognized \$12.4 million and \$11.5 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, there was \$19.7 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$3.0 million is expected to be recognized over the remainder of 2011, \$10.0 million in 2012, \$6.1 million in 2013 and \$0.6 million in 2014.

During the nine months ended September 30, 2011 and 2010, the total intrinsic value of awards exercised was \$12.0 million and \$2.2 million, respectively, and the total amount of cash received from the exercise of options was \$0.2 million and \$0.7 million, respectively. The tax benefit associated with the exercise of awards for the nine months ended September 30, 2011 and 2010 totaled \$3.5 million and \$0.6 million, respectively, and was recorded to additional capital.

**Table of Contents**

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, 2011:

	Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at December 31, 2010	4,498,303	\$ 36.38		
Granted	399,330	59.18		
Exercised	(273,556)	30.40		
Forfeited	(82,697)	46.14		
Outstanding at September 30, 2011	4,541,380	38.56	6.2	\$ 76,400
Exercisable at September 30, 2011	3,442,870	\$ 37.86	5.3	\$ 60,543

The following table sets forth a summary of restricted stock units and related information for the nine months ended September 30, 2011:

	Awards	Weighted Average Fair Value
Unvested at December 31, 2010	392,493	\$ 28.36
Granted	53,852	60.05
Vested	(236,913)	27.93
Forfeited	(5,543)	31.48
Unvested at September 30, 2011	203,889	\$ 37.16

**4. 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 and convertible debt.

**Table of Contents**

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

<i>Amounts in thousands, except share and per share data</i>	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income reported	\$ 53,890	\$ 33,661
Weighted average common shares outstanding used in computing basic earnings per share	43,289,281	42,491,186
Common shares issuable upon exercise of dilutive stock options	976,029	795,649
Common shares issuable from contingently convertible debentures (see note below for basis of calculation)	4,205,665	2,237,606
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	48,470,975	45,524,441
Earnings per share:		
Basic	\$ 1.24	\$ 0.79
Diluted	\$ 1.11	\$ 0.74

<i>Amounts in thousands, except share and per share data</i>	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income reported	\$ 141,402	\$ 80,654
Weighted average common shares outstanding used in computing basic earnings per share	43,180,697	42,470,820
Common shares issuable upon exercise of dilutive stock options	1,201,910	728,706
Common shares issuable from contingently convertible debentures (see note below for basis of calculation)	5,399,929	1,981,055
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	49,782,536	45,180,581
Earnings per share:		
Basic	\$ 3.27	\$ 1.90
Diluted	\$ 2.84	\$ 1.79

For the three months ended months ended September 30, 2011 and 2010, the computation of diluted earnings per share excluded 1.3 million and 2.5 million, respectively, of stock-settled stock appreciation rights at weighted average exercise prices of \$62 per share and \$47 per share, respectively. For the nine months ended months ended September 30, 2011 and 2010, the computation of diluted earnings per share excluded 1.2 million and 2.5 million, respectively, of stock-settled stock appreciation rights at weighted average exercise prices of \$62 per share and \$47 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 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures), the 6.0% Convertible Senior Debentures due 2029 (the 2029 Debentures) and the previously outstanding 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures) and together with the 2026 Debentures and 2029 Debentures, the Debentures) in cash upon conversion, 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. 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 and 2026 Debentures are \$28.87 and \$88.15, respectively. Share dilution is limited to a maximum of 11,951,939 shares for the 2029 Debentures and 2,507 shares for the 2026 Debentures. For the three and nine months ended September 30, 2011, the effect of the Debentures on diluted earnings per share was a decrease of \$0.11 and \$0.35, respectively. For the three and nine months ended September 30, 2010, the effect of the Debentures on diluted earnings per share was a decrease of approximately \$0.04 and \$0.08, respectively.



**Table of Contents****5. REVOLVING CREDIT FACILITY**

On August 22, 2011, WESCO Distribution, Inc. ( WESCO Distribution ) entered into a new Revolving Credit Facility, which has an aggregate borrowing capacity of \$400 million and includes a letter of credit sub-facility of up to \$80 million. The Revolving Credit Facility consists of two separate sub-facilities: (i) a U.S. sub-facility with a borrowing limit at any given time of up to \$400 million less the amount of outstanding borrowings under the Canadian sub-facility at that time and (ii) a Canadian sub-facility with a borrowing limit of up to \$175 million. The new facility also contains an accordion feature, allowing WESCO Distribution to request increases to the borrowing commitments under the facility of up to \$100 million in the aggregate. The facility matures in August 2016 and is collateralized by the inventory and certain other assets of WESCO Distribution and certain of its domestic subsidiaries and the inventory, accounts receivable, and certain other assets of WESCO Distribution Canada, L.P. WESCO Distribution's obligations under the Revolving Credit Facility have been guaranteed by WESCO International, Inc. ( WESCO International ) and by certain of WESCO International's subsidiaries. The completion of the new facility resulted in \$1.8 million of accelerated amortization expense related to the deferred financing fees from the previous facility.

Availability under the facility is based upon the amount of eligible U.S. and Canadian inventory and Canadian receivables applied against certain advance rates. Depending upon the amount of excess availability under the facility, interest will be calculated at LIBOR plus a margin that ranges between 1.50% and 2.00% or at the Alternative Rate (prime rate) plus a margin that ranges between 0.50% and 1.00%. The interest rate margin is reduced by 0.25% if WESCO's leverage ratio, as calculated under the Revolving Credit Facility, falls below a ratio of 2.5 to 1.0.

As long as the pro forma combined availability for the preceding 60-day period, up to and including the transaction date, under the facility and WESCO Distribution's accounts receivable securitization facility (the Receivables Facility ) is greater than \$125 million, WESCO is permitted, subject to certain specified conditions, to make acquisitions and repurchase WESCO International's outstanding capital stock and WESCO outstanding indebtedness. At September 30, 2011, there were no borrowings outstanding under the facility.

**6. ACCOUNTS RECEIVABLE SECURITIZATION FACILITY**

On August 22, 2011, WESCO Distribution entered into an amendment of the Receivables Facility, pursuant to the terms and conditions of the Fourth Amendment to Third Amended and Restated Receivables Purchase Agreement, dated as of April 13, 2009 (the Agreement ), by and among WESCO Receivables Corp., WESCO Distribution, the Purchasers and Purchaser Agents party thereto and PNC Bank, National Association, as Administrator. The Amendment adds an accordion feature, allowing WESCO Distribution to request increases to the purchase commitments under the Receivables Facility of up to \$100 million in the aggregate. The Amendment also lowers the interest rate spread from 1.75% to 1.10%, the commitment fee from 0.75% to 0.55%, and extends the term of the Receivables Facility to August 2014. Substantially all other terms and conditions of the Receivables Facility remain unchanged.

Under the Receivables Facility, WESCO sells, 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 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.

The consolidated balance sheets as of September 30, 2011 and December 31, 2010 both reflect \$370.0 million of accounts receivable balances legally sold to third parties, as well as borrowings for equal amounts. At September 30, 2011, the interest rate on borrowings under this facility was approximately 1.4%.

**7. 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, 2011 and 2010, WESCO incurred charges of \$19.5 million and \$17.9 million, respectively, for all such plans. Contributions are made in cash to all employee retirement savings plan accounts, except for the deferred compensation plan. Employees have the option to transfer balances allocated to their accounts into any of the available investment options, including WESCO common stock.





**Table of Contents****8. COMMITMENTS AND CONTINGENCIES**

As initially reported in WESCO's 2008 Annual Report on Form 10-K, 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 approximately \$50 million. The discovery process is on-going in this matter. 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, 2011.

**9. COMPREHENSIVE INCOME**

The following tables set forth comprehensive income and its components:

<i>Amounts in thousands</i>	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 53,890	\$ 33,661
Foreign currency translation adjustment	(26,411)	5,901
<b>Comprehensive income</b>	<b>\$ 27,479</b>	<b>\$ 39,562</b>

<i>Amounts in thousands</i>	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 141,402	\$ 80,654
Foreign currency translation adjustment	(16,685)	5,727
<b>Comprehensive income</b>	<b>\$ 124,717</b>	<b>\$ 86,381</b>

**10. INCOME TAXES**

The effective tax rate for the three months ended September 30, 2011 and 2010 was 29.7% and 29.1% respectively, and the effective tax rate for the nine months ended September 30, 2011 and 2010 was 29.2% and 28.9%, respectively. WESCO's three and nine month effective tax rates are lower than the federal statutory rate of 35% primarily due to benefits resulting from the recapitalization of Canadian operations, which are partially offset by nondeductible expenses, state taxes and foreign rate differences. The effective tax rate for the nine months ended September 30, 2011 reflects discrete adjustments totaling \$2.1 million, primarily related to changes in uncertain tax positions. The effective tax rate for the nine months ended September 30, 2010 reflects discrete adjustments totaling \$1.8 million primarily related to changes in uncertain tax positions.

The total amount of net unrecognized tax benefits was \$1.0 million and \$3.4 million as of September 30, 2011 and December 31, 2010, respectively. If these tax benefits were recognized in the consolidated financial statements, the portion of these amounts that would affect WESCO's effective tax rate would be \$0.5 million and \$1.9 million, respectively. During the next twelve months, WESCO anticipates an immaterial change in the net unrecognized tax benefits.

WESCO records interest related to uncertain tax positions as a part of interest expense in the consolidated statement of income. Penalties are recognized as part of income tax expense. During the nine months ended September 30, 2011 and 2010, WESCO recognized interest expense of \$1.6 million and \$0.6 million, respectively. As of September 30, 2011 and December 31, 2010, WESCO had an accrued liability for interest related to uncertain tax positions of \$11.1 million and \$9.5 million, respectively. There were no material penalties recorded during the nine months ended September 30, 2011 or 2010.

**Table of Contents**

**11. OTHER FINANCIAL INFORMATION**

WESCO Distribution, a 100% 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 \$0.2 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 on a subordinated basis to all existing and future senior indebtedness of WESCO International. The 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**

(unaudited)

	<b>September 30, 2011</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	\$ 7	\$ 38,567	\$ 55,475	\$	\$ 94,049
Trade accounts receivable, net			950,435		950,435
Inventories, net		343,323	288,098		631,421
Other current assets	(11,015)	16,481	80,517		85,983
<b>Total current assets</b>	<b>(11,008)</b>	<b>398,371</b>	<b>1,374,525</b>		<b>1,761,888</b>
Intercompany receivables, net			1,877,987	(1,877,987)	
Property, buildings and equipment, net		51,639	77,843		129,482
Intangible assets, net		7,189	142,829		150,018
Goodwill and other intangibles, net		246,125	741,233		987,358
Investments in affiliates and other noncurrent assets	2,145,420	3,406,776	16,616	(5,530,134)	38,678
<b>Total assets</b>	<b>\$ 2,134,412</b>	<b>\$ 4,110,100</b>	<b>\$ 4,231,033</b>	<b>\$ (7,408,121)</b>	<b>\$ 3,067,424</b>
Accounts payable	\$	\$ 428,225	\$ 218,370	\$	\$ 646,595
Other current liabilities	2,794	7,665	165,687		176,146
<b>Total current liabilities</b>	<b>2,794</b>	<b>435,890</b>	<b>384,057</b>		<b>822,741</b>
Intercompany payables, net	651,580	1,226,407		(1,877,987)	
Long-term debt	168,406	151,027	406,236		725,669
Other noncurrent liabilities	28,125	156,327	51,055		235,507
Stockholders' equity	1,283,507	2,140,449	3,389,685	(5,530,134)	1,283,507
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,134,412</b>	<b>\$ 4,110,100</b>	<b>\$ 4,231,033</b>	<b>\$ (7,408,121)</b>	<b>\$ 3,067,424</b>

	<b>December 31, 2010</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	\$ 1	\$ 32,342	\$ 21,234	\$	\$ 53,577
Trade accounts receivable, net			792,681		792,681
Inventories, net		321,111	267,737		588,848
Other current assets	(4,492)	90,105	(7,033)		78,580
<b>Total current assets</b>	<b>(4,491)</b>	<b>443,558</b>	<b>1,074,619</b>		<b>1,513,686</b>
Intercompany receivables, net			1,933,768	(1,933,768)	
Property, buildings and equipment, net		41,115	76,930		118,045
Intangible assets, net		7,817	152,490		160,307

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Goodwill and other intangibles, net		240,313	745,401		985,714
Investments in affiliates and other noncurrent assets	2,002,358	3,237,808	39,527	(5,230,671)	49,022
<b>Total assets</b>	<b>\$ 1,997,867</b>	<b>\$ 3,970,611</b>	<b>\$ 4,022,735</b>	<b>\$ (7,164,439)</b>	<b>\$ 2,826,774</b>
Accounts payable	\$	\$ 349,250	\$ 188,255	\$	\$ 537,505
Other current liabilities	8,016	17,563	145,149		170,728
<b>Total current liabilities</b>	<b>8,016</b>	<b>366,813</b>	<b>333,404</b>		<b>708,233</b>
Intercompany payables, net	646,607	1,287,161		(1,933,768)	
Long-term debt	166,573	151,755	407,565		725,893
Other noncurrent liabilities	28,077	167,705	48,272		244,054
Stockholders' equity	1,148,594	1,997,177	3,233,494	(5,230,671)	1,148,594
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,997,867</b>	<b>\$ 3,970,611</b>	<b>\$ 4,022,735</b>	<b>\$ (7,164,439)</b>	<b>\$ 2,826,774</b>

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF INCOME**

(unaudited)

	<b>Three Months Ended September 30, 2011</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net Sales	\$	\$ 847,745	\$ 764,880	\$ (32,249)	\$ 1,580,376
Cost of goods sold		680,897	616,097	(32,249)	1,264,745
Selling, general and administrative expenses	18	134,671	81,516		216,205
Depreciation and amortization		2,780	4,894		7,674
Results of affiliates' operations	60,336	53,846		(114,182)	
Interest expense, net	6,428	5,573	3,078		15,079
Provision for income taxes		17,334	5,449		22,783
Net income	\$ 53,890	\$ 60,336	\$ 53,846	\$ (114,182)	\$ 53,890

	<b>Three Months Ended September 30, 2010</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net Sales	\$	\$ 734,684	\$ 610,501	\$ (20,630)	\$ 1,324,555
Cost of goods sold		591,544	495,855	(20,630)	1,066,769
Selling, general and administrative expenses	19	129,401	61,157		190,577
Depreciation and amortization		3,134	2,829		5,963
Results of affiliates' operations	40,817	42,430		(83,247)	
Interest expense, net	7,137	4,129	2,482		13,748
Other income					
Provision for income taxes		8,089	5,748		13,837
Net income	\$ 33,661	\$ 40,817	\$ 42,430	\$ (83,247)	\$ 33,661

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATING STATEMENTS OF INCOME**

(unaudited)

	<b>Nine Months Ended September 30, 2011</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net Sales	\$	\$ 2,386,968	\$ 2,223,588	\$ (74,360)	\$ 4,536,196
Cost of goods sold		1,913,902	1,788,124	(74,360)	3,627,666
Selling, general and administrative expenses	62	404,112	240,002		644,176
Depreciation and amortization		8,228	14,633		22,861
Results of affiliates operations	159,957	156,191		(316,148)	
Interest expense, net	18,493	12,839	10,319		41,651
Provision for income taxes		44,121	14,319		58,440
Net income	\$ 141,402	\$ 159,957	\$ 156,191	\$ (316,148)	\$ 141,402

	<b>Nine Months Ended September 30, 2010</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net Sales	\$	\$ 2,095,135	\$ 1,690,249	\$ (53,109)	\$ 3,732,275
Cost of goods sold		1,685,105	1,372,125	(53,109)	3,004,121
Selling, general and administrative expenses	141	383,376	176,075		559,592
Depreciation and amortization		9,244	8,440		17,684
Results of affiliates operations	102,459	112,174		(214,633)	
Interest expense, net	21,664	11,134	8,880		41,678
Other income		(4,284)			(4,284)
Provision for income taxes		20,275	12,555		32,830
Net income	\$ 80,654	\$ 102,459	\$ 112,174	\$ (214,633)	\$ 80,654

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

(unaudited)

	<b>Nine Months Ended September 30, 2011</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash (used) provided by operating activities	\$ (2,450)	\$ 33,256	\$ 41,022	\$	\$ 71,828
Investing activities:					
Capital expenditures		(21,700)	(2,266)		(23,966)
Acquisition payments		(8,166)			(8,166)
Other		86			86
Net cash used by investing activities		(29,780)	(2,266)		(32,046)
Financing activities:					
Net repayments	4,973	(6,002)			(1,029)
Equity transactions	(2,517)				(2,517)
Other		8,751			8,751
Net cash provided by financing activities	2,456	2,749			5,205
Effect of exchange rate changes on cash and cash equivalents			(4,515)		(4,515)
Net change in cash and cash equivalents	6	6,225	34,241		40,472
Cash and cash equivalents at the beginning of year	1	32,342	21,234		53,577
Cash and cash equivalents at the end of period	\$ 7	\$ 38,567	\$ 55,475	\$	\$ 94,049

	<b>Nine Months Ended September 30, 2010</b>				
	<b>(In thousands)</b>				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash provided (used) by operating activities	\$ 1,370	\$ 95,780	\$ (21,653)	\$	\$ 75,497
Investing activities:					
Capital expenditures		(9,835)	(288)		(10,123)
Acquisition payments		(14,344)			(14,344)
Proceeds from sale of subsidiary		40,000			40,000
Collection of note receivable		15,000			15,000
Other		4,979			4,979
Net cash provided (used) by investing activities		35,800	(288)		35,512
Financing activities:					
Net repayments	(2,577)	(112,981)			(115,558)
Equity transactions	1,206				1,206
Other		(8,594)			(8,594)

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Net cash used by financing activities	(1,371)	(121,575)		(122,946)
Effect of exchange rate changes on cash and cash equivalents			2,728	2,728
Net change in cash and cash equivalents	(1)	10,005	(19,213)	(9,209)
Cash and cash equivalents at the beginning of year	3	16,924	95,402	112,329
Cash and cash equivalents at the end of period	\$ 2	\$ 26,929	\$ 76,189	\$ 103,120



**Table of Contents**

**12. SUBSEQUENT EVENT**

On October 3, 2011, WESCO International completed its acquisition of Brews Supply Ltd. through one of its wholly-owned Canadian subsidiaries. WESCO funded the purchase price paid at closing with cash and borrowings under the Receivables Facility.

## **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 2010 Annual Report on Form 10-K. The matters discussed herein may contain forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. Certain of these risks are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as well as the Company's other reports filed with the Securities and Exchange Commission.*

### **Company Overview**

WESCO International, Inc., incorporated in 1993 and formed in February 1994 upon acquiring a distribution business from Westinghouse Electric Corporation, is a leading North American distributor of products and provider of advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 100,000 customers globally, including a large percentage of Fortune 1000 companies, through approximately 400 full-service branches and seven distribution centers located primarily in the United States and Canada, with additional locations in Mexico, United Kingdom, Singapore, China, Australia and the United Arab Emirates and a commercial presence in six other countries. Approximately 82% of our net sales for the first nine months of 2011 were generated from operations in the United States, 15% from Canada and the remainder from other countries.

We sell electrical, industrial, and communications maintenance, repair and operating ( MRO ) and original equipment manufacturers ( OEM ) products, construction materials, and advanced supply chain management and logistics services. Our primary product categories include general electrical and industrial supplies, wire, cable and conduit, data and broadband communications, power distribution equipment, lighting and lighting control systems, control and automation and motors. We distribute approximately 1,000,000 different products from approximately 17,000 suppliers utilizing a highly automated, proprietary electronic procurement and inventory replenishment system. In addition, we offer a comprehensive portfolio of value-added services, which includes supply chain management, logistics and transportation procurement, warehousing and inventory management, as well as kitting, limited assembly of products and system installation. Our value-added capabilities, extensive geographic reach, experienced workforce and broad product and supply chain solutions have enabled us to grow our business and establish a leading position in North America.

Our financial results for the first nine months of 2011 reflect improving conditions in a number of our served markets, successful growth initiatives, the positive impact from recent acquisitions, higher product prices and product costs, effective spending control, and favorable foreign currency exchange rates. Sales increased \$803.9 million, or 21.5%, over the same period last year. Cost of goods sold as a percentage of net sales was 80.0% and 80.5% for the first nine months of 2011 and 2010, respectively. Operating income increased by \$90.6 million, or 60.1%, primarily from organic growth of the base business and recent acquisitions. Net income for the nine months ended September 30, 2011 and 2010 was \$141.4 million and \$80.7 million, respectively.

### **Cash Flow**

We generated \$71.8 million in operating cash flow for the first nine months of 2011. Included in this amount was increased income as a result of improved operating results offset by investments in working capital to fund our growth. Investing activities included payments of \$8.2 million for acquisitions and \$24.0 million for capital expenditures. Financing activities consisted of borrowings and repayments of \$323.5 million related to our Revolving Credit Facility, and borrowings and repayments of \$140.0 million related to our accounts receivable securitization facility (the Receivables Facility ).

### **Financing Availability**

As of September 30, 2011, we had \$445.0 million in total available borrowing capacity. The available borrowing capacity under our Revolving Credit Facility, which has a maturity date in August 2016, was \$365.0 million, of which \$229.4 million was available for U.S. borrowings and \$135.6 million was available for Canadian borrowings. The available borrowing capacity under the Receivables Facility, which has a maturity date in August 2014, was \$80.0 million. 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.

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

During the nine months ended September 30, 2011, there were no significant changes to our critical accounting policies and estimates referenced in our 2010 Annual Report on Form 10-K.

**Results of Operations***Third Quarter of 2011 versus Third Quarter of 2010*

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>2011</b>	<b>2010</b>
Net sales	100.0 %	100.0 %
Cost of goods sold	80.0	80.5
Selling, general and administrative expenses	13.7	14.4
Depreciation and amortization	0.5	0.5
<b>Income from operations</b>	<b>5.8</b>	<b>4.6</b>
Interest expense	0.9	1.0
Other income		
<b>Income before income taxes</b>	<b>4.9</b>	<b>3.6</b>
Provision for income taxes	1.5	1.0
<b>Net income</b>	<b>3.4 %</b>	<b>2.5 %</b>

Net sales in the third quarter of 2011 totaled \$1,580.4 million versus \$1,324.6 million in the comparable period for 2010, an increase of \$255.8 million, or 19.3%, over the same period last year. Sales were positively impacted by growth in a number of our served markets, successful growth initiatives, recent acquisitions, which comprised 6.9% of the sales growth, higher product prices due primarily to the recovery of rising supplier product and commodity prices, and favorable foreign currency exchange rates.

Cost of goods sold for the third quarter of 2011 was \$1,264.7 million versus \$1,066.8 million for the comparable period in 2010, and cost of goods sold as a percentage of net sales was 80.0% and 80.5% in 2011 and 2010, respectively. The decrease in the cost of goods sold percentage was primarily due to the favorable mix impact from recent acquisitions and a decrease in inventory reserve adjustments.

Selling, general and administrative ( SG&A ) expenses in the third quarter of 2011 totaled \$216.2 million versus \$190.6 million in last year's comparable quarter. The increase in SG&A expenses was primarily due to compensation expenses related to the growth in sales and income, and recent acquisitions. As a percentage of net sales, SG&A expenses were 13.7% in the third quarter of 2011 compared to 14.4% in the third quarter of 2010. SG&A expenses increased at a lower rate than sales due to the continued effectiveness of our cost control initiatives and the fixed cost nature of certain SG&A expense components.

SG&A payroll expenses for the third quarter of 2011 of \$150.8 million increased by \$14.8 million compared to the same quarter in 2010. The increase in payroll expenses was primarily due to an increase in salaries and wages of \$10.9 million and an increase in commissions and incentives of \$4.7 million, partially offset by a decrease in other payroll of \$1.9 million. These increases are primarily due to an increase in headcount, which is the result of both recent acquisitions and organic growth initiatives. Other SG&A payroll related expenses increased \$1.1 million.

The remaining SG&A expenses for the third quarter of 2011 of \$65.4 million increased by \$10.8 million compared to the same quarter in 2010 due to an increase in variable operating expenses associated with the growth in sales.

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Depreciation and amortization for the third quarter of 2011 was \$7.7 million versus \$6.0 million in last year's comparable quarter. The increase in depreciation and amortization is primarily due to additional amortization expense related to recently acquired intangible assets.

**Table of Contents**

Interest expense totaled \$15.1 million for the third quarter of 2011 versus \$13.7 million in last year's comparable quarter, an increase of 9.7%. Interest expense for the current quarter included a charge of \$1.8 million of deferred financing fees as a result of a new revolving credit agreement. Amortization of the debt discount resulted in non-cash interest expense of \$0.6 million in the third quarter of 2011 and \$1.2 million in the third quarter of 2010. Non-cash interest expense related to uncertain tax positions was \$0.3 million in third quarter of 2011 compared to \$0.3 million in the third quarter of 2010.

Income tax expense totaled \$22.8 million in the third quarter of 2011 compared to \$13.8 million in last year's comparable quarter, and the effective tax rate was 29.7% compared to 29.1% in the same quarter in 2010. The increase in the effective tax rate is primarily due to the increase in current and forecasted taxable income.

For the third quarter of 2011, net income increased by \$20.2 million to \$53.9 million compared to \$33.7 million in the third quarter of 2010. Diluted earnings per share was \$1.11 for the third quarter of 2011 compared with \$0.74 per diluted share for the third quarter of 2010.

*Nine Months Ended September 30, 2011 versus Nine Months Ended September 30, 2010*

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 September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net sales	100.0 %	100.0 %
Cost of goods sold	80.0	80.5
Selling, general and administrative expenses	14.2	15.0
Depreciation and amortization	0.5	0.5
Income from operations	5.3	4.0
Interest expense	0.9	1.1
Other income		(0.1)
Income before income taxes	4.4	3.0
Provision for income taxes	1.3	0.8
Net income	3.1 %	2.2 %

Net sales in the first nine months of 2011 totaled \$4,536.2 million versus \$3,732.3 million in the comparable period for 2010, an increase of \$803.9 million, or 21.5%, over the same period last year. Sales were positively impacted by growth in a number of our served markets, successful growth initiatives, recent acquisitions, which comprised 7.1% of the sales growth, higher product prices due primarily to rising supplier product and commodity prices, and favorable foreign currency exchange rates.

Cost of goods sold for the first nine months of 2011 was \$3,627.7 million versus \$3,004.1 million for the comparable period in 2010, and cost of goods sold as a percentage of net sales was 80.0% in 2011 and 80.5% in 2010. The decrease in the cost of goods sold percentage was primarily due to the favorable mix impact from recent acquisitions, higher supplier volume rebates and a decrease in inventory reserves.

SG&A expenses in the first nine months of 2011 totaled \$644.2 million versus \$559.6 million in last year's comparable period. The increase in SG&A expenses was primarily due to compensation expenses related to the growth in sales and recent acquisitions. As a percentage of net sales, SG&A expenses were 14.2% in the first nine months of 2011 compared to 15.0% in the first nine months of 2010. SG&A expenses increased at a lower rate than sales due to the continued effectiveness of our cost control initiatives and the fixed cost nature of certain SG&A expense components.

SG&A payroll expenses for the first nine months of 2011 of \$451.8 million increased by \$65.4 million compared to the same period in 2010. The increase in payroll expenses was primarily due to an increase in salaries and wages of \$34.1 million, an increase in commissions and incentives of \$17.6 million and an increase in benefit costs of \$10.2 million. These increases are primarily due to an increase in headcount, which is the result of both recent acquisitions and organic growth initiatives. Other SG&A payroll related expenses increased \$3.5 million.



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## **Table of Contents**

The remaining SG&A expenses for the first nine months of 2011 of \$192.4 million increased by approximately \$19.2 million compared to the same period in 2010 due to an increase in variable operating expenses associated with the growth in sales.

Depreciation and amortization for the first nine months of 2011 was \$22.9 million versus \$17.7 million in last year's comparable period. The increase in depreciation and amortization is primarily due to additional amortization expense related to recently acquired intangible assets.

Interest expense totaled \$41.7 million for the first nine months of 2011 versus \$41.7 million in last year's comparable period. Interest expense for the first nine months of 2011 included a charge of \$1.8 million of deferred financing fees as a result of a new revolving credit agreement. Amortization of the debt discount resulted in non-cash interest expense of \$1.8 million in 2011 and \$3.7 million in 2010. Non-cash interest expense related to uncertain tax positions was \$1.6 million in 2011 compared to \$0.6 million in 2010.

There was no other income recorded for the first nine months of 2011. Other income, comprised of equity income from the LADD joint venture, totaled \$4.3 million for the first nine months of 2010. The cessation of other income is due to the sale of our 40% interest in the LADD joint venture on June 7, 2010 to Deutsch Engineered Connecting Devices, Inc. (Deutsch). We accounted for our investment in the LADD joint venture on an equity basis, and earnings were reported as other income in the consolidated statement of income. We received equity income through May 31, 2010 and distributions through April 20, 2010, the date Deutsch notified us of its exercise of its option to purchase our 40% interest in the LADD joint venture.

Income tax expense totaled \$58.4 million in the first nine months of 2011 compared to \$32.8 million in the first nine months of 2010, and the effective tax rate was 29.2% compared to 28.9% in the same period in 2010. The increase in the effective tax rate is primarily due to the increase in current and forecasted taxable income.

For the first nine months of 2011, net income increased by \$60.7 million to \$141.4 million compared to \$80.7 million in the first nine months of 2010. Diluted earnings per share was \$2.84 for the first nine months of 2011 compared to \$1.79 per diluted share for the first nine months of 2010.

## **Liquidity and Capital Resources**

Total assets were \$3.1 billion at September 30, 2011, compared to \$2.8 billion at December 31, 2010. The \$240.6 million increase in total assets was primarily attributable to an increase in accounts receivable of \$157.8 million and an increase in inventory of \$42.6 million. Total liabilities at September 30, 2011 compared to December 31, 2010 increased by \$105.7 million to approximately \$1.8 billion. Contributing to the increase in total liabilities was an increase in accounts payable of \$109.1 million. Stockholders' equity increased 11.7% to \$1,283.5 million at September 30, 2011, compared with \$1,148.6 million at December 31, 2010, primarily as a result of net earnings of \$141.4 million, stock-based compensation expense of \$12.4 million, and a negative impact from foreign currency translation of \$16.7 million.

Our liquidity needs generally arise from working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2011, we had \$365.0 million in available borrowing capacity under our Revolving Credit Facility, which, combined with our \$80.0 million of available borrowing capacity under our Receivables Facility and our invested cash, provided us with liquidity of \$486.1 million. We believe cash provided by operations and financing activities will be adequate to cover our current operational and business needs.

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, 2011.

We did not note any conditions or events during the third quarter of 2011 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 of 2011.

Over the next several quarters, we expect to maintain working capital productivity, and it is expected that excess cash will be directed primarily to debt reduction and acquisitions. Our near term focus will be managing our working capital as we experience sales growth 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 our expansion needs and growth initiatives.

**Table of Contents***Cash Flow*

*Operating Activities.* Cash provided by operating activities for the first nine months of 2011 totaled \$71.8 million compared with \$75.5 million of cash generated for the first nine months of 2010. Cash provided by operating activities in the first nine months of 2011 included net income of \$141.4 million and adjustments to net income totaling \$46.8 million. Other sources of cash included an increase in accounts payable of \$110.6 million resulting from the increase in purchasing activity. Primary uses of cash during the first nine months of 2011 included: \$154.7 million for the increase in trade and other receivables resulting from the increase in sales; \$44.2 million for the increase in inventory; \$24.4 million for the decrease in other current and noncurrent liabilities; \$2.7 million for the decrease in accrued payroll and benefit costs resulting from the payment of the 2010 management incentive compensation and 401(k) discretionary contribution; and a decrease in prepaid expenses and other current assets of \$1.0 million. During the first nine months of 2010, primary sources of cash were net income of \$80.7 million and adjustments to net income totaling \$31.2 million, an increase in accounts payable of \$118.4 million, an increase in other current and noncurrent liabilities of \$11.7 million, an increase in accrued payroll and benefit costs of \$20.6 million, and an increase in prepaid expenses and other current assets of \$3.4 million. Cash used by operating activities in the first nine months of 2010 included: \$149.6 million for the increase in trade and other receivables; and \$40.9 million for the increase in inventory.

*Investing Activities.* Net cash used by investing activities for the first nine months of 2011 was \$32.0 million, compared with \$35.5 million of net cash provided during the first nine months of 2010. Included in 2010 were proceeds from the sale of our 40% interest in the LADD joint venture. Proceeds included \$40.0 million for our 40% interest, plus \$15.0 million for the collection of a promissory note. Investing activities for the first nine months of 2011 and 2010 also included acquisition payments of \$8.2 million and \$14.3 million, respectively, and capital expenditures of \$24.0 million and \$10.1 million, respectively.

*Financing Activities.* Net cash provided by financing activities for the first nine months of 2011 was \$5.2 million, compared with \$122.9 million of net cash used during the first nine months of 2010. During the first nine months of 2011, borrowings and repayments of long-term debt of \$323.5 million were made under our Revolving Credit Facility. Borrowings and repayments of \$140.0 million were applied to our Receivables Facility, and there were repayments of \$1.3 million to our mortgage financing facility. During the first nine months of 2010, borrowings and repayments of long-term debt of \$356.0 million and \$534.5 million, respectively, were made under our Revolving Credit Facility. Borrowings and repayments of \$360.0 million and \$295.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$1.2 million to our mortgage financing facility.

*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 2010 Annual Report on Form 10-K. 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. However, there can be no assurances that this 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. Our pricing related to inflation was approximately 3.3% of our sales revenue for the first nine months of 2011. Historically, price changes from suppliers have been consistent with inflation and have not had a material impact on the results of operations. Recently, prices of certain commodities have increased much faster than general inflation; however, we expect to pass through the majority of these increases to customers.

**Seasonality**

Our operating results are not significantly affected by seasonal factors. Sales during the first and fourth quarters are generally 1 to 3% below the sales of the second and third quarters, due to a reduced level of activity during the winter months of November through February. Sales typically increase beginning in March, with slight fluctuations per month through October. During periods of economic expansion or contraction, our sales by quarter have varied significantly.



## **Table of Contents**

### **Impact of Recently Issued Accounting Standards**

See Note 2 of our Notes to the Condensed Consolidated Financial Statements for information regarding the effect of new accounting pronouncements.

### **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 may identify forward-looking statements, although not all forward-looking statements contain such words. Such statements including, but not limited to, our statements regarding business strategy, growth strategy, competitive strengths, productivity and profitability enhancement, competition, 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, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward-looking statement made by us 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. Certain of these risks are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as well as the Company's other reports 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.

**Table of Contents**

**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, 2011 that would require an update to the disclosures provided in our 2010 Annual Report on Form 10-K.

**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*

During the third quarter of 2011, there were no changes 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.

**Table of Contents**

**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 initially reported in our 2008 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 approximately \$50 million. The discovery process is on-going in this matter. 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, 2011.

**Item 6. Exhibits**

(a) *Exhibits*

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.

101 Interactive Data File\*

\* In accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission, Exhibit 101 is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**Table of Contents**

**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 1, 2011

By: /s/ Richard P. Heyse  
Richard P. Heyse  
Vice President and Chief Financial Officer

25