

WESCO INTERNATIONAL INC

Form 10-Q

November 10, 2008

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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, 2008**

**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 or former address, 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 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 5, 2008, WESCO International, Inc. had 41,967,869 shares of common stock outstanding.

**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)

| <i>Amounts in thousands, except share data</i>  | <b>September<br/>30,<br/>2008</b> | <b>December<br/>31,<br/>2007</b> |
|---|-----------------------------------|----------------------------------|
| <b>Assets</b>   |                                   |                                  |
| <b>Current Assets:</b>  |                                   |                                  |
| Cash and cash equivalents   | \$ 103,270                        | \$ 72,297                        |
| Trade accounts receivable, net of allowance for doubtful accounts of \$20,560 and \$17,418 in 2008 and 2007, respectively ( <b>Note 5</b> ) | 937,773                           | 844,514                          |
| Other accounts receivable   | 35,736                            | 44,783                           |
| Inventories, net  | 654,608                           | 666,027                          |
| Current deferred income taxes   | 267                               | 4,026                            |
| Income taxes receivable   | 22,278                            | 38,793                           |
| Prepaid expenses and other current assets   | 12,061                            | 10,059                           |
| <br>  |                                   |                                  |
| Total current assets  | 1,765,993                         | 1,680,499                        |
| Property, buildings and equipment, net  | 116,381                           | 104,119                          |
| Intangible assets, net  | 90,578                            | 133,791                          |
| Goodwill  | 857,760                           | 924,358                          |
| Investment in subsidiary  | 46,811                            |                                  |
| Deferred income taxes   | 13,406                            |                                  |
| Other assets  | 29,966                            | 17,120                           |
| <br>  |                                   |                                  |
| Total assets  | \$ 2,920,895                      | \$ 2,859,887                     |

**Liabilities and Stockholders Equity**

|                                   |              |              |
|-----------------------------------|--------------|--------------|
| <b>Current Liabilities:</b>       |              |              |
| Accounts payable                  | \$ 742,903   | \$ 626,293   |
| Accrued payroll and benefit costs | 48,485       | 51,415       |
| Short-term debt ( <b>Note 5</b> ) | 525,000      | 502,300      |
| Current portion of long-term debt | 2,765        | 2,676        |
| Deferred acquisition payable      | 186          | 1,285        |
| Bank overdrafts                   | 33,709       | 58,948       |
| Current deferred income taxes     | 907          |              |
| Other current liabilities         | 57,055       | 49,008       |
| <br>                              |              |              |
| Total current liabilities         | 1,411,010    | 1,291,925    |
| <br>                              |              |              |
| Long-term debt                    | 649,734      | 811,311      |
| Deferred income taxes             | 114,564      | 118,084      |
| Other noncurrent liabilities      | 28,571       | 30,091       |
| <br>                              |              |              |
| Total liabilities                 | \$ 2,203,879 | \$ 2,251,411 |

Commitments and contingencies (**Note 8**)**Stockholders Equity:**

|   |              |              |
|---|--------------|--------------|
| 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, 55,549,620 and 54,663,418 shares issued and 41,999,698 and 43,144,032 shares outstanding in 2008 and 2007, respectively | 556          | 546          |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2008 and 2007, respectively                  | 43           | 43           |
| Additional capital  | 837,246      | 808,739      |
| Retained earnings   | 455,619      | 284,794      |
| Treasury stock, at cost; 17,889,353 and 15,858,817 shares in 2008 and 2007, respectively  | (590,330)    | (511,478)    |
| Accumulated other comprehensive income  | 13,882       | 25,832       |
| Total stockholders equity   | 717,016      | 608,476      |
| Total liabilities and stockholders equity   | \$ 2,920,895 | \$ 2,859,887 |

*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>2008</b>               | <b>2007</b>  | <b>2008</b>              | <b>2007</b>  |
| Net sales  | \$ 1,628,087              | \$ 1,545,607 | \$ 4,681,046             | \$ 4,514,271 |
| Cost of goods sold (excluding depreciation and amortization below) | 1,311,731                 | 1,232,520    | 3,758,716                | 3,594,075    |
| Selling, general and administrative expenses                       | 211,262                   | 194,753      | 629,704                  | 597,606      |
| Depreciation and amortization                                      | 6,543                     | 9,038        | 20,168                   | 27,154       |
| Income from operations   | 98,551                    | 109,296      | 272,458                  | 295,436      |
| Interest expense, net (Note 5)                                     | 12,127                    | 17,569       | 39,229                   | 46,574       |
| Other income (Note 6)  | (2,274)                   |              | (7,657)                  |              |
| Income before income taxes   | 88,698                    | 91,727       | 240,886                  | 248,862      |
| Provision for income taxes   | 22,830                    | 19,953       | 70,062                   | 69,263       |
| Net income   | \$ 65,868                 | \$ 71,774    | \$ 170,824               | \$ 179,599   |
| Earnings per share (Note 4):                                       |                           |              |                          |              |
| Basic  | \$ 1.56                   | \$ 1.62      | \$ 4.02                  | \$ 3.88      |
| Diluted  | \$ 1.53                   | \$ 1.54      | \$ 3.92                  | \$ 3.65      |

*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>2008</b>                                | <b>2007</b> |
| <b>Operating Activities:</b>  |  |             |
| Net income  | \$ 170,824                                 | \$ 179,599  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |             |
| Depreciation and amortization   | 20,168                                     | 27,154      |
| Amortization of debt issuance costs   | 2,852                                      | 2,895       |
| Deferred income taxes   | (2,578)                                    | (89)        |
| Stock-based compensation expense  | 9,703                                      | 11,199      |
| Gain on sale of property, buildings and equipment                                 | (2,114)                                    | (262)       |
| Loss on sale of subsidiary  | 3,005                                      |             |
| Equity income   | (7,657)                                    |             |
| Excess tax benefit from stock-based compensation ( <b>Note 3</b> )                | (9,457)                                    | (17,200)    |
| Interest related to uncertain tax positions ( <b>Note 11</b> )                    | 957  | 644         |
| Changes in assets and liabilities   |  |             |
| Trade and other receivables, net  | (99,399)                                   | (62,281)    |
| Inventories, net  | (14,348)                                   | (23,605)    |
| Prepaid expenses and other current assets   | 23,292                                     | 25,269      |
| Accounts payable  | 129,821                                    | 77,636      |
| Accrued payroll and benefit costs   | (2,698)                                    | (26,189)    |
| Other current and noncurrent liabilities  | (1,301)                                    | 12,439      |
| Net cash provided by operating activities   | 221,070                                    | 207,209     |
| <b>Investing Activities:</b>  |  |             |
| Capital expenditures  | (26,947)                                   | (11,171)    |
| Acquisition payments  | (3,289)                                    | (7,860)     |
| Proceeds from sale of subsidiary  | 60,000                                     |             |
| Equity distribution   | 5,857                                      |             |
| Proceeds from sale of assets  | 3,794                                      | 454         |
| Net cash provided (used) by investing activities                                  | 39,415                                     | (18,577)    |
| <b>Financing Activities:</b>  |  |             |
| Short-term borrowings, net  | 20,000                                     | 109,500     |
| Proceeds from issuance of long-term debt  | 523,400                                    | 649,400     |
| Repayments of long-term debt  | (682,715)                                  | (595,693)   |
| Debt issuance costs   | (45)                                       | (520)       |
| Proceeds from the exercise of stock options                                       | 9,357                                      | 6,000       |
| Excess tax benefit from stock-based compensation ( <b>Note 3</b> )                | 9,457                                      | 17,200      |
| Repurchase of common stock  | (78,852)                                   | (410,140)   |

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|  |            |           |
|--|------------|-----------|
| (Decrease) increase in bank overdrafts                       | (25,239)   | 30,802    |
| Payments on capital lease obligations                        | (1,363)    | (1,087)   |
| Net cash used by financing activities                        | (226,000)  | (194,538) |
| Effect of exchange rate changes on cash and cash equivalents | (3,512)    | (2,991)   |
| Net change in cash and cash equivalents                      | 30,973     | (8,897)   |
| Cash and cash equivalents at the beginning of period         | 72,297     | 73,395    |
| Cash and cash equivalents at the end of period               | \$ 103,270 | \$ 64,498 |

**Supplemental disclosures:**

Non-cash investing and financing activities:

|   |       |       |
|---|-------|-------|
| Property, buildings and equipment acquired through capital leases | 1,990 | 1,896 |
| Issuance of treasury stock  |       | 187   |

*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 and China. WESCO currently operates more than 400 full service branch locations and seven distribution centers (five in the United States and two 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 2007 Annual Report on Form 10-K filed with the SEC. The December 31, 2007 condensed 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, 2008, the unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2008 and 2007, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007, 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.

*Reclassification*

Certain prior period balances within the statement of cash flow have been reclassified to conform with current year presentation.

*Recent Accounting Pronouncements*

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value to new accounting transactions and does not apply to pronouncements that address share-based payment transactions. On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of SFAS No. 157. The FSP amends SFAS 157 to delay the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually) to fiscal years beginning after November 15, 2008. Except for the delay for nonfinancial assets and liabilities, SFAS 157 was effective for fiscal years beginning after November 15, 2007. Consistent with its requirements, WESCO adopted SFAS 157 for its financial assets and liabilities on January 1, 2008. WESCO's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank overdrafts and debt. The Company believes that the recorded values of its financial instruments, except for long-term debt, approximate fair value because of their nature and respective duration. The adoption of SFAS 157 did not impact WESCO's financial position, results of operations, or cash flows. WESCO is currently evaluating the effect that the implementation of FSP 157-2 will have on its financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R) which establishes additional principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling

interest in the acquiree at the acquisition date fair value. SFAS 141R is designed to improve the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is in or after the beginning of the first annual reporting period beginning after December 15, 2008. WESCO is currently evaluating the effect that the implementation of SFAS 141R will have on its financial position, results of operations and cash flows.

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In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP FAS 142-3 ). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), and requires additional disclosure. The objective of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and shall be applied prospectively to intangible assets acquired after the effective date. WESCO is currently evaluating the effect that the implementation of FSP FAS 142-3 will have on its financial position, results of operations and cash flows.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* ( FSP APB 14-1 ). FSP APB 14-1 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 nonconvertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and requires retrospective application to all periods presented during which any such convertible debt instruments were outstanding. FSP APB 14-1 will change the accounting treatment for WESCO's 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures ) and 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures ) and will result in an increase to non-cash interest reported in its historical financial statements as well as its future financial statements as long as WESCO continues to have convertible debentures outstanding. WESCO estimates that the initial impact to the consolidated balance sheet (as of December 31, 2008) will be a decrease in long-term debt of approximately \$252.5 million for the recognition of a debt discount and an aggregate increase in equity of approximately \$146.3 million. The debt discount will be amortized to interest expense resulting in a \$0.10- \$0.12 decrease in earnings per share in the year of adoption.

**3. STOCK-BASED COMPENSATION**

WESCO's stock-based employee compensation plans are comprised of stock options and stock-settled stock appreciation rights. During the year ended December 31, 2003, WESCO adopted the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Beginning January 1, 2006, WESCO adopted SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ), using the modified prospective method. Under SFAS 123R, 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-based awards is determined using the Black-Scholes valuation model. 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 months ended September 30, 2008 and 2007, WESCO granted the following stock-settled stock appreciation rights at the following weighted average assumptions:

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2008</b>               | <b>2007</b> | <b>2008</b>              | <b>2007</b> |
| Stock-settled appreciations rights granted | 895,235                   | 597,787     | 920,344                  | 600,987     |
| Risk free interest rate                    | 3.1%                      | 4.9%        | 3.1%                     | 4.9%        |
| Expected life                              | 4 years                   | 4 years     | 4 years                  | 4 years     |
| Expected volatility                        | 38%                       | 40%         | 38%                      | 40%         |

For the three and nine months ended September 30, 2008, the weighted average fair value per equity award granted was approximately \$13.65

WESCO recognized \$3.2 million and \$4.7 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2008 and 2007, respectively. WESCO recognized \$9.7 million and \$11.2 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2008 and 2007. As of September 30, 2008, there was \$21.7 million of total unrecognized compensation cost related to

non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$3.2 million is expected to be recognized over the remainder of 2008, \$10.5 million in 2009, \$6.1 million in 2010 and \$1.9 million in 2011.

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During the nine months ended September 30, 2008 and 2007, the total intrinsic value of awards exercised was \$26.1 million and \$50.2 million, respectively, and the total amount of cash received from the exercise of options was \$9.4 million and \$6.0 million, respectively. The tax benefit associated with the exercise of awards for the nine months ended September 30, 2008 and 2007 totaled \$9.5 million and \$17.2 million, respectively, and was recorded as a credit to additional paid-in capital.

The following table sets forth a summary of both stock options and stock-settled appreciation rights and related information for the nine months ended September 30, 2008:

|                                   |           | <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, 2007  | 4,213,863 | \$ 28.85   |   |   |
| Granted                           | 920,344   | 39.95  |   |   |
| Exercised                         | (910,240) | 11.33  |   |   |
| Forfeited                         | (36,514)  | 60.23  |   |   |
| Outstanding at September 30, 2008 | 4,187,453 | 34.83  | 6.9   | \$ 28,843   |
| Exercisable at September 30, 2008 | 2,702,498 | \$ 27.54   | 5.6   | \$ 28,778   |

**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 required by SFAS No. 123R and SFAS No. 128, *Earnings Per Share*.

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

|  | <b>Three Months Ended<br/>September 30,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                                 | <b>2007</b> |
| <i>Amounts in thousands, except share and per share data</i>   |   |             |
| Net income reported  | \$ 65,868                                   | \$ 71,774   |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 42,154,940                                  | 44,316,266  |
| Common shares issuable upon exercise of dilutive stock options   | 944,697                                     | 1,685,167   |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation)            |   | 609,783     |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 43,099,637                                  | 46,611,216  |

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Earnings per share:

|         |  |    |      |    |      |
|---------|--|----|------|----|------|
| Basic   |  | \$ | 1.56 | \$ | 1.62 |
| Diluted |  | \$ | 1.53 | \$ | 1.54 |

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|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2008</b>                                | <b>2007</b> |
| <i>Amounts in thousands, except share and per share data</i>   |  |             |
| Net income reported  | \$ 170,824                                 | \$ 179,599  |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 42,465,351                                 | 46,329,834  |
| Common shares issuable upon exercise of dilutive stock options   | 1,116,496                                  | 1,777,736   |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation)            |  | 1,043,925   |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 43,581,847                                 | 49,151,495  |
| Earnings per share:  |  |             |
| Basic  | \$ 4.02                                    | \$ 3.88     |
| Diluted  | \$ 3.92                                    | \$ 3.65     |

For the three and nine months ended September 30, 2008 and 2007, the computation of diluted earnings per share excluded stock-settled stock appreciation rights of approximately 2.0 million and 1.1 million at weighted average exercise prices of \$52 per share and \$64 per share, respectively. These amounts were excluded because their effect would have been antidilutive.

Under EITF Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*, and EITF Issue No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion*, and because of WESCO's obligation to settle the par value of the 2025 Debentures and the 2026 Debentures (collectively, 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. 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 2026 Debentures and 2025 Debentures are \$88.15 and \$41.86, respectively. Share dilution is limited to a maximum of 3,403,110 shares for the 2026 Debentures and 3,583,080 shares for the 2025 Debentures. Since the average stock price for the three and nine month periods ended September 30, 2008 was less than the conversion prices, there was no impact of the Debentures on diluted earnings per share. For the three and nine month periods ended September 30, 2007, the effect of the 2025 Debentures on diluted earnings per share was a decrease of \$0.02 and \$0.08, respectively.

**5. ACCOUNTS RECEIVABLE SECURITIZATION**

WESCO maintains a \$500 million accounts receivable securitization program (the Receivables Facility) that has a three year term and is subject to renewal in May 2010. Under the Receivables Facility, WESCO sells, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corporation, a wholly owned, special purpose entity (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 a portion of 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.

Prior to December 2006, WESCO accounted for transfers of receivables pursuant to the Receivables Facility as a sale and removed them from the consolidated balance sheet. In December 2006, the Receivables Facility was amended and restated such that WESCO effectively maintains control of receivables transferred pursuant to the Receivables

Facility; therefore, the transfers no longer qualify for sale treatment under SFAS No. 140. As a result, all transfers are accounted for as secured borrowings and the receivables sold pursuant to the Receivables Facility are included on the balance sheet as trade receivables, along with WESCO's retained subordinated undivided interest in those receivables.

As of September 30, 2008 and December 31, 2007, accounts receivable eligible for securitization totaled approximately \$688.5 million and \$604.0 million, respectively. The consolidated balance sheets as of September 30, 2008 and December 31, 2007 reflect \$500.0 million and \$480.0 million, respectively, of account receivable balances legally sold to third parties, as well as the related borrowings for equal amounts.



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Interest expense and other costs associated with the Receivables Facility totaled \$4.4 million and \$7.7 million for the three months ended September 30, 2008 and 2007, respectively. For the nine months ended September 30, 2008 and 2007 these costs totaled \$14.3 million and \$20.8 million, respectively. At September 30, 2008, the interest rate on borrowings under this facility was approximately 3.5%.

**6. EQUITY INVESTMENT**

During the first quarter of 2008, WESCO and Deutsch Engineering 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. 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 assets in the consolidated balance sheet. 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 and removed from the consolidated balance sheet net assets of approximately \$119.6 million, of which \$68.8 million was related to goodwill and \$37.7 million was related to intangible assets. WESCO accounts for its investment in the joint venture using the equity method of accounting as prescribed by Accounting Principles Board No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Accordingly, earnings from the joint venture are recorded as other income in the consolidated statement of income.

**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, 2008 and 2007, WESCO incurred charges of \$15.2 million and \$14.2 million, respectively, for all such plans. 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.

**8. 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.

**Table of Contents****9. 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>2008</b>                                 | <b>2007</b> |
| Net income                              | \$ 65,868                                   | \$ 71,774   |
| Foreign currency translation adjustment | (7,517)                                     | 1,592       |
| Comprehensive income                    | \$ 58,351                                   | \$ 73,366   |

| <i>Amounts in thousands</i>             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2008</b>                                | <b>2007</b> |
| Net income                              | \$ 170,824                                 | \$ 179,599  |
| Foreign currency translation adjustment | (11,950)                                   | 9,354       |
| Comprehensive income                    | \$ 158,874                                 | \$ 188,953  |

**10. 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 with an expiration date of September 30, 2009. The shares may be repurchased from time to time in the open market or through privately negotiated transactions. The stock repurchase program may be implemented or discontinued at any time by WESCO. During the three and nine months ended September 30, 2008, WESCO repurchased approximately 0.4 million shares for \$14.0 million and approximately 1.9 million shares for \$74.8 million, respectively.

In addition, during the nine months ended September 30, 2008, WESCO purchased approximately 0.1 million shares from employees for \$4.0 million in connection with the settlement of tax withholding obligations arising from the exercise of common stock options and stock-settled stock appreciation rights.

**11. INCOME TAXES**

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

|   | <b>Three Months Ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2008</b>                                 | <b>2007</b> |
| Federal statutory rate  | 35.0%                                       | 35.0%       |
| State taxes, net of federal tax benefit                               | 1.7   | 2.4         |
| Nondeductible expenses  | 0.5   | 0.5         |
| Domestic tax benefit from foreign operations                          | (2.1)                                       | (0.7)       |
| Foreign tax rate differences <sup>(1)</sup>                           | (9.1)                                       | (6.2)       |
| Federal tax credits <sup>(2)</sup>                                    |   | (0.1)       |
| Domestic production activity deduction                                | (0.2)                                       | (0.3)       |
| Adjustment related to uncertain tax positions                         |   | 1.2         |
| Adjustments related to foreign currency exchange gains <sup>(3)</sup> |   | (1.9)       |
| Change in valuation allowance <sup>(4)</sup>                          |   | (9.2)       |
| Other   | (0.1)                                       | 1.1         |
|   | 25.7%                                       | 21.8%       |



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|   | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2008</b>                                | <b>2007</b> |
| Federal statutory rate  | 35.0%                                      | 35.0%       |
| State taxes, net of federal tax benefit                               | 2.1  | 2.8         |
| Nondeductible expenses  | 0.5  | 0.5         |
| Domestic tax benefit from foreign operations                          | (1.1)                                      | (0.7)       |
| Foreign tax rate differences <sup>(1)</sup>                           | (7.7)                                      | (5.9)       |
| Federal tax credits <sup>(2)</sup>                                    |  | (0.1)       |
| Domestic production activity deduction                                | (0.2)                                      | (0.3)       |
| Adjustment related to uncertain tax positions                         | 0.2  | 0.4         |
| Adjustments related to foreign currency exchange gains <sup>(3)</sup> |  | (0.7)       |
| Change in valuation allowance <sup>(4)</sup>                          |  | (3.5)       |
| Other   | 0.3  | 0.3         |
|   | 29.1%                                      | 27.8%       |

(1) Includes a benefit of \$8.0 million and \$5.5 million for the three months ended September 30, 2008 and 2007, respectively, and \$18.6 million and \$14.5 million for the nine months ended September 30, 2008 and 2007, respectively, from the recapitalization of Canadian operations and in 2008 the effect of differences between the recorded provision and the final filed tax return for

the prior year.

- (2) Includes a benefit of \$0.1 million and \$0.3 million, respectively, for the three and nine months ended September 30, 2007 from research and development credits.
- (3) Includes a benefit of \$1.8 million for the three and nine months ended September 30, 2007 from a foreign currency exchange gain related to the recapitalization of Canadian operations.
- (4) Pursuant to SFAS No. 109, *Accounting for Income Taxes*, WESCO recorded an \$8.5 million reversal of valuation allowances against deferred tax assets for tax net operating loss carryforwards. The reversal was recorded as a discrete tax benefit in the three months ended

September 30, 2007 and was based on achieving substantial profitability and a favorable assessment of expected future operating results in jurisdictions in which WESCO's net operating losses may be utilized in future periods.

In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of *FASB Statement No. 109*, 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 | 1999 and forward |
| United States | States  | 2003 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. WESCO estimates that up to \$3.1 million of unrecognized tax benefits related to income tax positions may be affected. The outcome of the audits and the timing of the settlements are subject to significant uncertainty.

The total amounts of unrecognized tax benefits were \$10.5 million and \$10.0 million as of September 30, 2008 and December 31, 2007, 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 \$8.7 million and \$8.1 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, 2008 and December 31, 2007, WESCO had an accrued liability of \$5.4 million and \$4.4 million, respectively, for interest related to uncertain tax positions, of which approximately \$0.3 million and \$1.0 million were recorded during the three and nine months ended September 30, 2008, respectively. As of September 30, 2008, WESCO had a liability for tax penalties of \$0.5 million.

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**12. OTHER FINANCIAL INFORMATION**

WESCO Distribution, Inc. has outstanding \$150 million in aggregate principal amount of 7.50% Senior Subordinated Notes due 2017 (the 2017 Notes ), and WESCO International, Inc. has outstanding \$150 million in aggregate principal amount of 2025 Debentures and \$300 million in aggregate principal amount of 2026 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, Inc. The 2025 Debentures and 2026 Debentures are fully and unconditionally guaranteed by WESCO Distribution, Inc. on a senior subordinated basis to all existing and future senior indebtedness of WESCO Distribution, Inc.

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

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEETS****September 30, 2008  
(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                                | \$ 0                            | \$ 46,957                      | \$ 56,313                     | \$   | \$ 103,270   |
| Trade accounts receivable,<br>net                        |                                 |                                | 937,773                       |  | 937,773      |
| Inventories, net   |                                 | 442,051                        | 212,557                       |  | 654,608      |
| Other current assets                                     | (9)                             | 35,972                         | 34,379                        |  | 70,342       |
| Total current assets                                     | (9)                             | 524,980                        | 1,241,022                     |  | 1,765,993    |
| Intercompany receivables,<br>net                         |                                 | (1,419,294)                    | 1,902,966                     | (483,672)                                      |              |
| Property, buildings and<br>equipment, net                |                                 | 42,157                         | 74,224                        |  | 116,381      |
| Intangible assets, net                                   |                                 | 9,754                          | 80,824                        |  | 90,578       |
| Goodwill and other<br>intangibles, net                   |                                 | 395,546                        | 462,214                       |  | 857,760      |
| Investments in affiliates and<br>other noncurrent assets | 1,650,695                       | 3,030,296                      | 15,861                        | (4,606,669)                                    | 90,183       |
| Total assets   | \$ 1,650,686                    | \$ 2,583,439                   | \$ 3,777,111                  | \$ (5,090,341)                                 | \$ 2,920,895 |
| Accounts payable   | \$                              | \$ 578,913                     | \$ 163,990                    | \$   | \$ 742,903   |
| Short-term debt  |                                 | 25,000                         | 500,000                       |  | 525,000      |
| Other current liabilities                                |                                 | 81,046                         | 62,061                        |  | 143,107      |
| Total current liabilities                                |                                 | 684,959                        | 726,051                       |  | 1,411,010    |
| Intercompany payables, net                               | 483,672                         |                                |                               | (483,672)                                      |              |
| Long-term debt   | 449,998                         | 158,105                        | 41,631                        |  | 649,734      |
| Other noncurrent liabilities                             |                                 | 96,678                         | 46,457                        |  | 143,135      |
| Stockholders' equity                                     | 717,016                         | 1,643,697                      | 2,962,972                     | (4,606,669)                                    | 717,016      |
| Total liabilities and<br>stockholders' equity            | \$ 1,650,686                    | \$ 2,583,439                   | \$ 3,777,111                  | \$ (5,090,341)                                 | \$ 2,920,895 |

**December 31, 2007  
(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                                | \$ (7)                 | \$ 32,140             | \$ 40,164    | \$                            | \$ 72,297    |
| Trade accounts receivable,<br>net                        |                        |                       | 844,514      |                               | 844,514      |
| Inventories, net   |                        | 433,641               | 232,386      |                               | 666,027      |
| Other current assets                                     | (16)                   | 35,956                | 61,721       |                               | 97,661       |
| Total current assets                                     | (23)                   | 501,737               | 1,178,785    |                               | 1,680,499    |
| Intercompany receivables,<br>net                         |                        | (1,352,902)           | 1,806,458    | (453,556)                     |              |
| Property, buildings and<br>equipment, net                |                        | 33,642                | 70,477       |                               | 104,119      |
| Intangible assets, net                                   |                        | 10,368                | 123,423      |                               | 133,791      |
| Goodwill and other<br>intangibles, net                   |                        | 393,263               | 531,095      |                               | 924,358      |
| Investments in affiliates and<br>other noncurrent assets | 1,512,055              | 2,912,423             | 2,822        | (4,410,180)                   | 17,120       |
| Total assets   | \$1,512,032            | \$ 2,498,531          | \$3,713,060  | \$(4,863,736)                 | \$2,859,887  |
| Accounts payable   | \$                     | \$ 467,859            | \$ 158,434   | \$                            | \$ 626,293   |
| Short-term debt  |                        | 22,300                | 480,000      |                               | 502,300      |
| Other current liabilities                                |                        | 96,180                | 67,152       |                               | 163,332      |
| Total current liabilities                                |                        | 586,339               | 705,586      |                               | 1,291,925    |
| Intercompany payables, net                               | 453,556                |                       |              | (453,556)                     |              |
| Long-term debt   | 450,000                | 318,608               | 42,703       |                               | 811,311      |
| Other noncurrent liabilities                             |                        | 90,468                | 57,707       |                               | 148,175      |
| Stockholders' equity                                     | 608,476                | 1,503,116             | 2,907,064    | (4,410,180)                   | 608,476      |
| Total liabilities and<br>stockholders' equity            | \$1,512,032            | \$ 2,498,531          | \$3,713,060  | \$(4,863,736)                 | \$2,859,887  |

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****Three Months Ended September 30, 2008  
(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 operations                | 60,211                          | 31,872                         |                               | (92,083)                                       |              |
| Interest (income) expense, net                  | (5,658)                         | 4,811                          | 12,974                        |  | 12,127       |
| Other (income) expense                          |                                 | (2,274)                        |                               |  | (2,274)      |
| Provision for income taxes                      |                                 | 21,028                         | 1,802                         |  | 22,830       |
| Net income                                      | \$65,868                        | \$ 60,209                      | \$ 31,874                     | \$ (92,083)                                    | \$ 65,868    |

**Three Months Ended September 30, 2007  
(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                                       | \$                              | \$1,069,354                    | \$476,253                     | \$   | \$1,545,607  |
| Cost of goods sold                              |                                 | 866,751                        | 365,769                       |  | 1,232,520    |
| Selling, general and<br>administrative expenses | 1                               | 221,802                        | (27,050)                      |  | 194,753      |
| Depreciation and amortization                   |                                 | 4,107                          | 4,931                         |  | 9,038        |
| Results of affiliates operations                | 66,652                          | 77,545                         |                               | (144,197)                                      |              |
| Interest (income) expense, net                  | (9,468)                         | 6,357                          | 20,680                        |  | 17,569       |
| Other (income) expense                          |                                 |                                |                               |  |              |
| Provision for income taxes                      | 4,345                           | (18,770)                       | 34,378                        |  | 19,953       |
| Net income                                      | \$71,774                        | \$ 66,652                      | \$ 77,545                     | \$ (144,197)                                   | \$ 71,774    |

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****Nine Months Ended September 30, 2008  
(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 amortization                   |                                 | 10,708                         | 9,460                         |  | 20,168       |
| Results of affiliates operations                | 152,530                         | 102,094                        |                               | (254,624)                                      |              |
| Interest (income) expense, net                  | (18,299)                        | 20,669                         | 36,859                        |  | 39,229       |
| Other (income) expense                          |                                 | (7,657)                        |                               |  | (7,657)      |
| Provision for income taxes                      |                                 | 59,109                         | 10,953                        |  | 70,062       |
| Net income                                      | \$170,824                       | \$ 152,530                     | \$ 102,094                    | \$(254,624)                                    | \$ 170,824   |

**Nine Months Ended September 30, 2007  
(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                                       | \$                              | \$3,134,781                    | \$1,379,490                   | \$   | \$4,514,271  |
| Cost of goods sold                              |                                 | 2,538,149                      | 1,055,926                     |  | 3,594,075    |
| Selling, general and<br>administrative expenses | 6                               | 489,150                        | 108,450                       |  | 597,606      |
| Depreciation and amortization                   |                                 | 12,434                         | 14,720                        |  | 27,154       |
| Results of affiliates operations                | 164,656                         | 123,646                        |                               | (288,302)                                      |              |
| Interest (income) expense, net                  | (27,750)                        | 34,402                         | 39,922                        |  | 46,574       |
| Other (income) expense                          |                                 |                                |                               |  |              |
| Provision for income taxes                      | 12,801                          | 19,637                         | 36,825                        |  | 69,263       |
| Net income                                      | \$179,599                       | \$ 164,655                     | \$ 123,647                    | \$(288,302)                                    | \$ 179,599   |

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

**Nine Months Ended September 30, 2008**  
**(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 provided by operating activities                    | \$ 29,929                       | \$ 169,074                     | \$ 22,067                     | \$   | \$ 221,070   |
| Investing activities:  |                                 |                                |                               |  |              |
| Capital expenditures   |                                 | (25,607)                       | (1,340)                       |  | (26,947)     |
| Acquisition payments   |                                 | (3,289)                        |                               |  | (3,289)      |
| Sale of subsidiary   |                                 | 60,000                         |                               |  | 60,000       |
| Equity distribution  |                                 | 5,857                          |                               |  | 5,857        |
| Other  |                                 | 3,794                          |                               |  | 3,794        |
| Net cash provided (used) by investing activities             |                                 | 40,755                         | (1,340)                       |  | 39,415       |
| Financing activities:  |                                 |                                |                               |  |              |
| Net borrowings (repayments)                                  | 30,116                          | (168,410)                      | (1,021)                       |  | (139,315)    |
| Equity transactions  | (60,038)                        |                                |                               |  | (60,038)     |
| Other  |                                 | (26,602)                       | (45)                          |  | (26,647)     |
| Net cash used by financing activities                        | (29,922)                        | (195,012)                      | (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   |

**Nine Months Ended September 30, 2007**  
**(In thousands)**

|  | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|

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|  |           |            |            |            |
|--|-----------|------------|------------|------------|
| Net cash provided (used) by operating activities             | \$ 27,714 | \$ 187,312 | \$ (7,817) | \$ 207,209 |
| Investing activities:  |           |            |            |            |
| Capital expenditures   |           | (9,748)    | (1,423)    | (11,171)   |
| Acquisition payments   |           | (7,860)    |            | (7,860)    |
| Other  |           | 454        |            | 454        |
| Net cash used by investing activities                        |           | (17,154)   | (1,423)    | (18,577)   |
| Financing activities:  |           |            |            |            |
| Net borrowings (repayments)                                  | 359,688   | (195,517)  | (964)      | 163,207    |
| Equity transactions  | (386,940) |            |            | (386,940)  |
| Other  | (465)     | 29,663     | (3)        | 29,195     |
| Net cash used by financing activities                        | (27,717)  | (165,854)  | (967)      | (194,538)  |
| Effect of exchange rate changes on cash and cash equivalents |           |            | (2,991)    | (2,991)    |
| Net change in cash and cash equivalents                      | (3)       | 4,304      | (13,198)   | (8,897)    |
| Cash and cash equivalents at the beginning of year           | (2)       | 27,622     | 45,775     | 73,395     |
| Cash and cash equivalents at the end of period               | \$ (5)    | \$ 31,926  | \$ 32,577  | \$ 64,498  |

**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 2007 Annual Report on Form 10-K.*

**Company Overview**

We are a full-line distributor of electrical supplies and equipment and a provider of integrated supply procurement services. We have more than 400 full service branches and seven distribution centers located in the United States, Canada, Mexico, the United Kingdom, Nigeria, United Arab Emirates, Singapore and China. We serve over 110,000 customers worldwide, offering over 1,000,000 products from over 24,000 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 87% of our net sales are generated from operations in the United States, 11% from Canada and the remainder from other countries.

Our financial results for the first nine months of 2008 reflect sales growth in our markets served, along with the positive impact of higher commodity prices, favorable exchange rates, hurricane restoration activity and the acquisitions completed in the latter half of 2007. Additionally, in January 2008 we completed a transaction in which we divested 60% of our LADD operations resulting in a joint venture in which we own a 40% interest. Sales increased \$166.8 million, or 3.7%, over the same period last year. Last year's comparable period included sales of \$75.5 million related to the LADD operations. Cost of goods sold as a percentage of net sales was 80.3% and 79.6% for the first nine months of 2008 and 2007, respectively. Operating income decreased by \$23.0 million, or 7.8%, primarily from the partial divestiture of our LADD operations. Net income for the nine months ended September 30, 2008 and 2007 was \$170.8 million and \$179.6 million, respectively.

**Cash Flow**

We generated \$221.1 million in operating cash flow for the first nine months of 2008. Included in this amount was net income of \$170.8 million. Investing activities included proceeds of \$60.0 million related to our recent divestiture, and capital expenditures of \$26.9 million. Financing activities consisted of borrowings and repayments of \$523.4 million and \$681.7 million, respectively, related to our revolving credit facility, \$78.9 million related to stock repurchases, and net borrowings of \$20.0 million related to our Receivables Facility, whereby we sell, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corp., a wholly owned SPE.

**Financing Availability**

As of September 30, 2008, we had \$303.4 million in available borrowing capacity under our revolving credit facility, of which \$239.9 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, and the Receivables Facility matures on May 9, 2010. In addition, our 2025 Debentures and 2026 Debentures cannot be redeemed or repurchased until 2010 and 2011, respectively. We increased our cash by \$31.0 million to \$103.3 million, after taking into account \$74.8 million of share repurchases and \$26.9 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 acquisitions and improvements in operations and our capital structure made in 2006, 2007 and 2008 have positioned us well for the future. We continue to see macroeconomic data and input from internal sales management, customers and suppliers that suggest activity levels in our major end markets will be somewhat softer for the remainder of 2008 and throughout 2009. We believe that there are opportunities in the industrial and commercial construction end markets and that we are well positioned to participate in these large fragmented markets. Our strong market position, combined with our continued focus on margin, productivity improvement, and selling and marketing initiatives, should enable us to perform at an above market rate throughout the remainder of 2008 and into 2009.

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

During the nine month period ended September 30, 2008, there were no significant changes to our Critical Accounting Policies and Estimates referenced in the 2007 Annual Report on Form 10-K.

**Results of Operations***Third Quarter of 2008 versus Third Quarter of 2007*

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>2008</b>               | <b>2007</b> |
| Net sales                                    | 100.0%                    | 100.0%      |
| Cost of goods sold                           | 80.6                      | 79.7        |
| Selling, general and administrative expenses | 13.0                      | 12.6        |
| Depreciation and amortization                | 0.4                       | 0.6         |
| Income from operations                       | 6.0                       | 7.1         |
| Interest expense                             | 0.7                       | 1.2         |
| Other income                                 | (0.1)                     |             |
| Income before income taxes                   | 5.4                       | 5.9         |
| Provision for income taxes                   | 1.4                       | 1.3         |
| Net income                                   | 4.0%                      | 4.6%        |

Net sales in the third quarter of 2008 totaled \$1,628.1 million versus \$1,545.6 million in the comparable period for 2007, an increase of \$82.5 million, or 5.3%, over the same period last year. Sales were positively impacted by higher commodity prices, hurricane restoration activity, favorable exchange rates and the acquisitions completed in the second half of 2007. These increases were partially offset by the absence of \$24.7 million of sales recognized in last year's comparable period for the LADD operations.

Cost of goods sold for the third quarter of 2008 was \$1,311.7 million versus \$1,232.5 million for the comparable period in 2007, and cost of goods sold as a percentage of net sales was 80.6% in 2008 versus 79.7% in 2007. The cost of goods sold percentage increased due to the divestiture of the LADD operations, the time lag associated with passing supplier price increases to our customers and an unfavorable sales mix.

Selling, general and administrative ( SG&A ) expenses in the third quarter of 2008 totaled \$211.3 million versus \$194.8 million in last year's comparable quarter. As a percentage of net sales, SG&A expenses were 13.0% in the third quarter of 2008 compared to 12.6% in the third quarter of 2007, reflecting an increase in sales personnel, recent acquisitions, higher bad debt expense and the impact from foreign currency transactions. In the third quarter of 2007 foreign currency transaction gains reduced SG&A expenses by 0.3% of sales and in the third quarter of 2008 foreign currency transaction losses increased SG&A expenses by 0.1% of sales.

SG&A payroll expenses for the third quarter of 2008 of \$141.7 million increased by \$3.8 million compared to the same quarter in 2007. The increase in payroll expenses was primarily due to an increase in salaries and wages of \$4.6 million and an increase in incentive costs of \$0.6 million, offset by a decrease in temporary labor costs of \$1.1 million. Other SG&A related payroll expenses decreased \$0.3 million.

The remaining SG&A expenses for the third quarter of 2008 of \$69.6 million increased by approximately \$12.7 million compared to same quarter in 2007. Contributing to the increase was a foreign currency transaction loss of \$1.9 million recognized in the current period and a foreign currency transaction gain of \$4.6 million recognized in last year's comparable period. Also included in this period's SG&A expenses was an increase in bad debt expense of \$3.3 million, related to an increase in customer defaults and collections issues, an increase in travel expenses of

\$1.2 million and an increase in other SG&A expenses of \$1.7 million.

Depreciation and amortization for the third quarter of 2008 was \$6.5 million versus \$9.0 million in last year's comparable quarter. Of the \$2.5 million decrease, \$1.5 million is related to the recent divestiture.

Interest expense totaled \$12.1 million for the third quarter of 2008 versus \$17.6 million in last year's comparable quarter, a decrease of approximately 31.0%. Interest expense for the third quarter of 2008 was primarily impacted by the reduction in interest rates and the decrease in debt.



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Other income totaled \$2.3 million for the third quarter of 2008. As a result of selling a majority interest in our LADD operations, the investment in the new joint venture is accounted for on an equity basis, and earnings are reported as other income in the consolidated statement of income. There was no other income recorded for the third quarter of 2007.

Income tax expense totaled \$22.8 million in the third quarter of 2008, and the effective tax rate was 25.7% compared to 21.8% in the same quarter in 2007. The increase in the effective tax rate is a result of an adjustment recorded in last year's comparable period to reverse a portion of the valuation allowance applied against deferred tax assets. The current quarter's effective tax rate differed from the statutory rate primarily as a result of a lower tax rate from foreign operations.

For the third quarter of 2008, net income decreased by \$5.9 million to \$65.9 million compared to \$71.8 million in the third quarter of 2007. Diluted earnings per share was \$1.53 for the third quarter of 2008 compared with \$1.54 per diluted share for the third quarter of 2007. The decrease in net income was primarily due to the partial divestiture of the LADD operations, higher cost of goods sold resulting from supplier price increases, foreign currency transactions and the increase in the effective tax rate of 3.9%.

*Nine Months Ended September 30, 2008 versus Nine Months Ended September 30, 2007*

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>2008</b>                                | <b>2007</b> |
| Net sales                                    | 100.0%                                     | 100.0%      |
| Cost of goods sold                           | 80.3                                       | 79.6        |
| Selling, general and administrative expenses | 13.5                                       | 13.3        |
| Depreciation and amortization                | 0.4  | 0.6         |
| Income from operations                       | 5.8  | 6.5         |
| Interest expense                             | 0.8  | 1.0         |
| Other income                                 | (0.2)                                      |             |
| Income before income taxes                   | 5.2  | 5.5         |
| Provision for income taxes                   | 1.5  | 1.5         |
| Net income                                   | 3.7%                                       | 4.0%        |

Net sales in the first nine months of 2008 totaled \$4,681.0 million versus \$4,514.3 million in the comparable period for 2007, an increase of \$166.8 million, or 3.7%, over the same period last year. Sales were positively impacted by higher commodity prices, favorable exchange rates, hurricane restoration activity and the acquisitions completed in the second half of 2007. These increases were partially offset by the absence of \$75.5 million of sales recognized in last year's comparable period for the LADD operations.

Cost of goods sold for the first nine months of 2008 was \$3,758.7 million versus \$3,594.1 million for the comparable period in 2007, and cost of goods sold as a percentage of net sales was 80.3% in 2008 versus 79.6% in 2007. The cost of goods sold percentage increased due to the divestiture of the LADD operations and the time lag associated with passing supplier price increases to our customers.

SG&A expenses in the first nine months of 2008 totaled \$629.7 million versus \$597.6 million in last year's comparable period. As a percentage of net sales, SG&A expenses were 13.5% in the first nine months of 2008 compared to 13.3% in the first nine months of 2007, reflecting an increase in sales personnel, recent acquisitions and the impact from foreign currency transaction gains and losses, gains and losses on the disposition of assets and other non-recurring items.

SG&A payroll expenses for the first nine months of 2008 of \$429.6 million increased by \$13.2 million compared to the same period in 2007. The increase in payroll expenses was primarily due to an increase in salaries and wages of \$15.0 million and an increase in incentive compensation costs of \$1.1 million, offset by a decrease in temporary labor costs of \$3.0 million. Other SG&A related payroll expenses increased \$0.1 million.

The remaining SG&A expenses for the first nine months of 2008 of \$200.1 million increased by approximately \$18.9 million compared to same period in 2007. Contributing to the increase were offsetting amounts recognized in last year's comparable period which included a gain of \$7.0 million related to foreign currency transactions and a charge of \$6.7 million for a legal settlement. Included in this year's SG&A expenses were charges of \$3.0 million for the partial sale of the LADD operations and \$2.2 million for foreign currency transactions. These losses were partially offset by a gain of \$2.2 million for the sale of assets. In addition, there was an increase in bad debt expense of \$4.0 million related to an increase in customer defaults and collections issues, an increase in travel costs of \$3.8 million, an increase in rent and insurance of \$2.0 million, and an increase in other non-recurring SG&A expenses of \$5.8 million.

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Depreciation and amortization for the first nine months of 2008 was \$20.2 million versus \$27.2 million in last year's comparable period. Of the \$7.0 million decrease, \$4.6 million is related to the recent divestiture.

Interest expense totaled \$39.2 million for the first nine months of 2008 versus \$46.6 million in last year's comparable period, a decrease of approximately 15.8%. Included in last year's comparable period was a pre-tax gain of \$2.4 million related to the change in the accounting treatment of the Receivables Facility. Interest expense for the first nine months of 2008 was primarily impacted by the reduction in interest rates and the decrease in debt.

Other income totaled \$7.7 million for the first nine months of 2008. As a result of selling a majority interest in our LADD operations, the investment in the new joint venture is accounted for on an equity basis, and earnings are reported as other income in the consolidated statement of income. There was no other income recorded for the first nine months of 2007.

Income tax expense totaled \$70.1 million for the first nine months of 2008, and the effective tax rate was 29.1% compared to 27.8% in the same period in 2007. The increase in the effective tax rate is a result of an adjustment recorded in last year's comparable period to reverse a portion of the valuation allowance applied against deferred tax assets. The current period's effective tax rate differed from the statutory rate primarily as a result of a lower tax rate from foreign operations.

For the first nine months of 2008, net income decreased by \$8.8 million to \$170.8 million compared to \$179.6 million in the first nine months of 2007. Diluted earnings per share was \$3.92 for the first nine months of 2008 compared with \$3.65 per diluted share for the first nine months of 2007. The decrease in net income was primarily due to the partial divestiture of the LADD operations, higher cost of goods sold resulting from supplier price increases, and the increase in SG&A costs.

**Liquidity and Capital Resources**

Total assets at September 30, 2008 and December 31, 2007 were \$2.9 billion. Total assets remained unchanged primarily as a result of the LADD divestiture, the impact of which was offset by an increase in accounts receivable. Total liabilities at September 30, 2008 compared to December 31, 2007 decreased by \$47.5 million to \$2.2 billion. Contributing to the decrease in total liabilities was a decrease in short-term and long-term debt of \$138.8 million and a decrease in bank overdrafts of \$25.2 million. These decreases were offset by an increase in accounts payable of \$116.6 million due to the increase in the cost of sales. Stockholders' equity increased 17.8% to \$717.0 million at September 30, 2008, compared with \$608.5 million at December 31, 2007, primarily as a result of net earnings of \$170.8 million and benefits of \$14.8 million from the exercise of stock options and \$9.7 million from stock-based compensation expense. These increases were partially offset by stock repurchases, which totaled \$74.8 million for the nine months ended September 30, 2008 and foreign currency translation adjustments of \$12.0 million.

Our liquidity needs arise from working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2008, we had \$303.4 million in available borrowing capacity under our revolving credit facility, which combined with our invested cash provides us with liquidity of \$348.3 million. Our available borrowing capacity under our revolving credit facility at September 30, 2008 increased \$157.2 million from December 31, 2007 primarily due to debt repayments. 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 are in compliance with all covenants and restrictions as of September 30, 2008. In addition, on October 17, 2008 Moody's Investor Services affirmed our credit rating and stable outlook.

Over the next several quarters we expect to maintain working capital productivity, and it is expected that excess cash will be directed at debt reduction, share repurchases and accretive acquisitions. 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 while maintaining targeted levels of leverage. 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.



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We finance our operating and investing needs as follows:

*Accounts Receivable Securitization Facility*

We maintain a \$500 million accounts receivable securitization program that has a three year term and is subject to renewal in May 2010. Under the Receivables Facility, we sell, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corporation, a wholly owned 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 a portion of the receivables, in the form of overcollateralization. We have 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.

Prior to December 2006, we accounted for transfers of receivables pursuant to the Receivables Facility as a sale and removed them from the consolidated balance sheet. In December 2006, the Receivables Facility was amended and restated such that we effectively maintain control of receivables transferred pursuant to the Receivables Facility; therefore the transfers no longer qualify for sale treatment under SFAS No. 140. As a result, all transfers are accounted for as secured borrowings and the receivables sold pursuant to the Receivables Facility are included on the balance sheet as trade receivables, along with our retained subordinated undivided interest in those receivables.

As of September 30, 2008 and December 31, 2007, accounts receivable eligible for securitization totaled approximately \$688.5 million and \$604.0 million, respectively. The consolidated balance sheets as of September 30, 2008 and December 31, 2007 reflect \$500.0 million and \$480.0 million, respectively, of account receivable balances legally sold to third parties, as well as the related borrowings for equal amounts.

*Mortgage Financing Facility*

In February 2003, we finalized a \$51 million mortgage financing facility, \$42.6 million of which was outstanding as of September 30, 2008. Borrowings under the mortgage financing facility are collateralized by 75 domestic properties and are subject to a 22-year amortization schedule with a balloon payment due at the end of the 10-year term. Interest rates on borrowings under this facility are fixed at 6.5%.

*Revolving Credit Facility*

The revolving credit facility provides for an aggregate borrowing limit of up to \$375 million and matures on November 1, 2013. During the first nine months of 2008, we borrowed \$523.4 million and made repayments of \$681.7 million in the aggregate. At September 30, 2008, we had \$29.0 million outstanding under the facility, of which \$25.0 million is classified as short-term debt. We were in compliance with all covenants and restrictions as of September 30, 2008.

*7.50% Senior Subordinated Notes due 2017*

At September 30, 2008, \$150 million in aggregate principal amount of the 2017 Notes was outstanding. The 2017 Notes were issued by WESCO Distribution, Inc. under an indenture dated as of September 27, 2005 with The Bank of New York, as successor to J.P. Morgan Trust Company, National Association, as trustee, and are unconditionally guaranteed on an unsecured basis by WESCO International, Inc. The 2017 Notes accrue interest at the rate of 7.50% per annum and are payable in cash semi-annually in arrears on each April 15 and October 15.

*2.625% Convertible Senior Debentures due 2025*

At September 30, 2008, \$150 million in aggregate principal amount of the 2025 Debentures was outstanding. The 2025 Debentures were issued by WESCO International Inc. under an indenture dated as of September 27, 2005 with The Bank of New York, as successor to J.P. Morgan Trust Company, National Association, as trustee, and are unconditionally guaranteed on an unsecured senior subordinated basis by WESCO Distribution, Inc. The 2025 Debentures accrue interest at the rate of 2.625% per annum and are payable in cash semi-annually in arrears on each April 15 and October 15. Beginning with the six-month interest period commencing October 15, 2010, we also will pay contingent interest in cash during any six-month interest period in which the trading price of the 2025 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 2025 Debentures. During any interest period when contingent interest shall be payable, the contingent interest payable per \$1,000 principal amount of 2025 Debentures will equal 0.25% of the average trading price of \$1,000 principal amount of the 2025 Debentures during the five trading days immediately preceding the first day of the applicable six-month interest

period. As defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ), the contingent interest feature of the 2025 Debentures is an embedded derivate that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at September 30, 2008 or at December 31, 2007.

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The 2025 Debentures are convertible into cash and, in certain circumstances, shares of WESCO International, Inc. s common stock, \$0.01 par value, at any time on or after October 15, 2023, or prior to October 15, 2023 in certain circumstances. The 2025 Debentures will be convertible based on an initial conversion rate of 23.8872 shares of common stock per \$1,000 principal amount of the 2025 Debentures (equivalent to an initial conversion price of approximately \$41.86 per share). The conversion rate and the conversion price may be adjusted under certain circumstances.

At any time on or after October 15, 2010, we may redeem all or a part of the 2025 Debentures at a redemption price equal to 100% of the principal amount of the 2025 Debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date. Holders of 2025 Debentures may require us to repurchase all or a portion of their 2025 Debentures on October 15, 2010, October 15, 2015 and October 15, 2020 at a cash repurchase price equal to 100% of the principal amount of the 2025 Debentures, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date. If we undergo certain fundamental changes prior to maturity, holders of 2025 Debentures will have the right, at their option, to require us to repurchase for cash some or all of their 2025 Debentures at a repurchase price equal to 100% of the principal amount of the 2025 Debentures being repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.

*1.75% Convertible Senior Debentures due 2026*

At September 30, 2008, \$300 million in aggregate principal amount of the 2026 Debentures was outstanding. The 2026 Debentures were issued by WESCO International, Inc. under an indenture dated as of November 2, 2006, with The Bank of New York, as Trustee, and are unconditionally guaranteed on an unsecured senior subordinated basis by WESCO Distribution, Inc. The 2026 Debentures accrue interest at the rate of 1.75% per annum and are payable in cash semi-annually in arrears on each May 15 and November 15. Beginning with the six-month interest period commencing November 15, 2011, we also will pay contingent interest in cash during any six-month interest period in which the trading price of the 2026 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 2026 Debentures will equal 0.25% of the average trading price of \$1,000 principal amount of the 2026 Debentures during the five trading days immediately preceding the first day of the applicable six-month interest period. As defined in SFAS 133, the contingent interest feature of the 2026 Debentures is an embedded derivate that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at September 30, 2008 or at December 31, 2007.

The 2026 Debentures are convertible into cash and, in certain circumstances, shares of WESCO International, Inc. s common stock, \$0.01 par value, at any time on or after November 15, 2024, or prior to November 15, 2024 in certain circumstances. The 2026 Debentures will be convertible based on an initial conversion rate of 11.3437 shares of common stock per \$1,000 principal amount of the 2026 Debentures (equivalent to an initial conversion price of approximately \$88.15 per share). The conversion rate and the conversion price may be adjusted under certain circumstances.

At any time on or after November 15, 2011, we may redeem all or a part of the 2026 Debentures at a redemption price equal to 100% of the principal amount of the 2026 Debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date. Holders of 2026 Debentures may require us to repurchase all or a portion of their 2026 Debentures on November 15, 2011, November 15, 2016 and November 15, 2021 at a cash repurchase price equal to 100% of the principal amount of the 2026 Debentures, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date. If we undergo certain fundamental changes, as defined in the indenture governing the 2026 Debentures, prior to maturity, holders of 2026 Debentures will have the right, at their option, to require us to repurchase for cash some or all of their 2026 Debentures at a repurchase price equal to 100% of the principal amount of the 2026 Debentures being repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.





**Table of Contents***Cash Flow*

*Operating Activities.* Cash provided by operating activities for the first nine months of 2008 totaled \$221.1 million compared with \$207.2 million of cash generated for the first nine months of 2007. The increased level of cash flow is primarily attributable to net income of \$170.8 million and adjustments to net income totaling \$14.9 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, resulting from the payment of the 2007 management incentive compensation; and \$1.3 million for the decrease in other current and noncurrent liabilities. In the first nine months of 2007, primary sources of cash were net income of \$179.6 million and adjustments to net income totaling \$24.3 million; an increase in accounts payable of \$77.6 million, resulting from the increase in the cost of sales; a reduction in prepaid and other current assets of \$25.3 million; and an increase in other current and noncurrent liabilities of \$12.4 million. Cash used by operating activities in the first nine months of 2007 included \$62.2 million for the increase in trade and other receivables, resulting from the increase in sales; \$26.2 million for the decrease in accrued payroll and benefit costs resulting from the payment of the 2006 management incentive compensation; and \$23.6 million for the increase in inventory.

*Investing Activities.* Net cash provided by investing activities for the first nine months of 2008 was \$39.4 million, compared with \$18.6 million of net cash used during the first nine months of 2007. Included in 2008 were proceeds of \$60.0 million from the partial divestiture of the LADD operations, distributions of \$5.9 million from the LADD joint venture and proceeds of \$3.8 million from the sale of assets. Capital expenditures were \$26.9 million and \$11.2 million in the first nine months of 2008 and 2007, respectively. The increase in capital expenditures for 2008 is primarily due to facility and information technology improvements. In addition, expenditures of \$3.3 million and \$7.9 million in 2008 and 2007, respectively, were made pursuant to acquisition purchase agreements.

*Financing Activities.* Net cash used by financing activities for the first nine months of 2008 and 2007 was \$226.0 million and \$194.5 million, respectively. 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. During the first nine months of 2007, borrowings and repayments of long-term debt of \$649.4 million and \$591.4 million, respectively, were made to our revolving credit facility. Borrowings and repayments of \$134.5 million and \$25.0 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 and 2007, we purchased shares of our common stock under our share repurchase plan for approximately \$74.8 million and \$400.0 million, respectively. The exercise of stock-based compensation arrangements resulted in proceeds of \$9.7 million and \$6.0 million during the first nine months of 2008 and 2007, 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 2007 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. 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. On an overall basis, our pricing related to inflation comprised an estimated \$100 million of our sales growth for the nine months ended September 30, 2008.

**Seasonality**

Our operating results are not significantly affected by certain seasonal factors. Sales during the first quarter are generally less than 2% below the sales of the remaining three quarters due to reduced level of activity during the winter months of January and February. Sales typically increase beginning in March with slight fluctuations per

month through December.

**Table of Contents****Impact of Recently Issued Accounting Standards**

In September 2006, the FASB issued SFAS 157 which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value to new accounting transactions and does not apply to pronouncements that address share-based payment transactions. On February 12, 2008, the FASB issued FSP SFAS No. 157-2, Effective Date of SFAS No. 157. The FSP amends SFAS 157 to delay the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually) to fiscal years beginning after November 15, 2008. Except for the delay for nonfinancial assets and liabilities, SFAS 157 was effective for fiscal years beginning after November 15, 2007. Consistent with its requirements, we adopted SFAS 157 for our financial assets and liabilities on January 1, 2008. Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank overdrafts and debt. We believe that the recorded values of our financial instruments, except for long-term debt, approximate fair value because of their nature and respective duration. The partial adoption of SFAS 157 did not impact our financial position, results of operations, or cash flows. Nonfinancial assets and liabilities for which we have not applied the provisions of SFAS 157 include those measured at fair value in goodwill and indefinite lived intangible asset impairment testing, and assets acquired and liabilities assumed in a business combination. We are currently evaluating the effect that the implementation of FSP 157-2 will have on our financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS 141R which establishes additional principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date fair value. SFAS 141R is designed to improve the relevance, representational faithfulness and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is in or after the beginning of the first annual reporting period beginning after December 15, 2008. We are currently evaluating the effect that the implementation of SFAS 141R will have on our financial position, results of operations and cash flows.

In April 2008, the FASB issued FSP FAS 142-3 which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, and requires additional disclosure. The objective of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and shall be applied prospectively to intangible assets acquired after the effective date. We are currently evaluating the effect that the implementation of FSP FAS 142-3 will have on our financial position, results of operations and cash flows.

In May 2008, the FASB issued FSP APB 14-1 which 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 nonconvertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 and requires retrospective application to all periods presented during which any such convertible debt instruments were outstanding. FSP APB 14-1 will change the accounting treatment for our 2025 and 2026 Debentures and will result in an increase to non-cash interest reported in our historical financial statements as well as our future financial statements as long as we continue to have convertible debentures outstanding. We estimate that the initial impact to the consolidated balance sheet (as of December 31, 2008) will be a decrease in long-term debt of approximately \$252.5 million for the recognition of a debt discount and an aggregate increase in equity of approximately \$146.3 million. The debt discount will be amortized to interest expense resulting in a \$0.10- \$0.12 decrease in earnings per share in the year of adoption.

**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, 2007, 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, 2008 that would require an update to the disclosures provided in our 2007 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 2008, 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 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.

Information relating to legal proceedings is included in Note 8, Commitments and Contingencies of the Notes to the Condensed Consolidated Financial Statements and is incorporated herein by reference.

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

The following table provides a summary of all repurchases by us of our common stock during the three months ended September 30, 2008.

| <b>Period</b>  | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased<br/>(In<br/>Thousands)<br/>(3)</b> | <b>Average<br/>Price<br/>Paid Per<br/>Share</b> | <b>Total Number of<br/>Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced Plans<br/>or Programs<br/>(In Thousands) (1)</b> | <b>Approximate<br/>Dollar Value of<br/>Shares That May<br/>Yet Be<br/>Purchased Under<br/>the Plans<br/>or Programs<br/>(In Millions) (1) (2)</b> |
|----------------|--|---|--|---|
| July 2008      | 0.1  | \$38.90   |  | \$ 308.6  |
| August 2008    | 378.6  | \$36.96   | 378.0  | \$ 294.7  |
| September 2008 | 0.7  | \$40.01   |  | \$ 294.7  |
| <b>Total</b>   | <b>379.4</b>   | <b>\$36.97</b>                                  | <b>378.0</b>   |   |

(1) On September 28, 2007, we announced that our Board of Directors authorized a stock repurchase program in the amount of up to

\$400 million  
with an  
expiration date  
of September  
30, 2009.

- (2) Excludes  
commission fees  
of \$11.3  
thousand for the  
month of  
August.
  
- (3) Of the  
0.4 million  
shares acquired,  
1,403 shares  
were purchased  
from employees  
for  
approximately  
\$0.1 million in  
connection with  
the settlement of  
tax withholding  
obligations  
arising from the  
exercise of  
stock-settled  
stock  
appreciation  
rights.

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**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.

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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 10, 2008

/s/ Stephen A. Van Oss  
Stephen A. Van Oss  
Senior Vice President, Chief Financial and  
Administrative Officer

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