

WESCO INTERNATIONAL INC

Form 10-Q

November 09, 2007

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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, 2007**

**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, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

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 7, 2007, WESCO International, Inc. had 43,880,466 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)

|   | <b>September<br/>30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|---|-----------------------------------|----------------------------------|
| <i>Amounts in thousands, except share data</i>  |                                   |                                  |
| <b>Assets</b>   |                                   |                                  |
| <b>Current Assets:</b>  |                                   |                                  |
| Cash and cash equivalents   | \$ 64,498                         | \$ 73,395                        |
| Trade accounts receivable, net of allowance for doubtful accounts of \$19,325 and \$12,641 in 2007 and 2006, respectively ( <b>Note 5</b> ) | 913,705                           | 829,962                          |
| Other accounts receivable   | 37,540                            | 43,011                           |
| Inventories, net  | 648,147                           | 613,569                          |
| Current deferred income taxes   | 16,970                            | 14,991                           |
| Income taxes receivable   | 22,350                            | 34,016                           |
| Prepaid expenses and other current assets   | 10,187                            | 9,068                            |
| <b>Total current assets</b>   | <b>1,713,397</b>                  | <b>1,618,012</b>                 |
| Property, buildings and equipment, net  | 104,676                           | 107,016                          |
| Intangible assets, net ( <b>Note 6</b> )  | 137,181                           | 147,550                          |
| Goodwill ( <b>Note 6</b> )  | 906,492                           | 931,229                          |
| Other assets  | 18,185                            | 20,176                           |
| <b>Total assets</b>   | <b>\$ 2,879,931</b>               | <b>\$ 2,823,983</b>              |
| <b>Liabilities and Stockholders Equity</b>  |                                   |                                  |
| <b>Current Liabilities:</b>   |                                   |                                  |
| Accounts payable  | \$ 680,075                        | \$ 590,304                       |
| Accrued payroll and benefit costs   | 44,701                            | 69,945                           |
| Short-term debt   | 500,000                           | 390,500                          |
| Current portion of long-term debt   | 2,654                             | 5,927                            |
| Deferred acquisition payable  | 1,458                             | 3,453                            |
| Bank overdrafts   | 58,634                            | 27,833                           |
| Other current liabilities   | 74,762                            | 65,710                           |
| <b>Total current liabilities</b>  | <b>1,362,284</b>                  | <b>1,153,672</b>                 |
| Long-term debt  | 801,576                           | 743,887                          |
| Other noncurrent liabilities  | 28,293                            | 13,520                           |
| Deferred income taxes   | 115,985                           | 149,677                          |
| <b>Total liabilities</b>  | <b>\$ 2,308,138</b>               | <b>\$ 2,060,756</b>              |
| Commitments and contingencies ( <b>Note 8</b> )   |                                   |                                  |

**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, 54,648,128 and 53,789,918 shares issued and 43,907,389 and 49,545,506 shares outstanding in 2007 and 2006, respectively | 546          | 538          |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2007 and 2006, respectively                  | 43           | 43           |
| Additional capital  | 804,332      | 769,948      |
| Retained earnings   | 223,761      | 48,988       |
| Treasury stock, at cost; 15,080,170 and 8,583,843 shares in 2007 and 2006, respectively   | (480,773)    | (70,820)     |
| Accumulated other comprehensive income  | 23,884       | 14,530       |
| Total stockholders equity   | 571,793      | 763,227      |
| Total liabilities and stockholders equity   | \$ 2,879,931 | \$ 2,823,983 |

*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 share data</i>                     | <b>Three Months Ended</b> |              | <b>Nine Months Ended</b> |              |
|--|---------------------------|--------------|--------------------------|--------------|
|  | <b>September 30,</b>      |              | <b>September 30,</b>     |              |
|  | <b>2007</b>               | <b>2006</b>  | <b>2007</b>              | <b>2006</b>  |
| Net sales  | \$ 1,545,607              | \$ 1,343,066 | \$ 4,514,271             | \$ 3,944,550 |
| Cost of goods sold (excluding depreciation and amortization below) | 1,232,520                 | 1,067,406    | 3,594,075                | 3,145,231    |
| Gross profit   | 313,087                   | 275,660      | 920,196                  | 799,319      |
| Selling, general and administrative expenses                       | 194,753                   | 168,830      | 597,606                  | 508,240      |
| Depreciation and amortization                                      | 9,038                     | 6,653        | 27,154                   | 19,249       |
| Income from operations   | 109,296                   | 100,177      | 295,436                  | 271,830      |
| Interest expense, net ( <b>Note 5</b> )                            | 17,569                    | 5,094        | 46,574                   | 17,100       |
| Other expenses ( <b>Note 5</b> )                                   |                           | 5,814        |                          | 17,137       |
| Income before income taxes   | 91,727                    | 89,269       | 248,862                  | 237,593      |
| Provision for income taxes   | 19,953                    | 29,884       | 69,263                   | 78,580       |
| Net income   | \$ 71,774                 | \$ 59,385    | \$ 179,599               | \$ 159,013   |
| Earnings per share ( <b>Note 4</b> ):                              |                           |              |                          |              |
| Basic:   | \$ 1.62                   | \$ 1.21      | \$ 3.88                  | \$ 3.27      |
| Diluted  | \$ 1.54                   | \$ 1.13      | \$ 3.65                  | \$ 3.04      |

*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>2007</b>                                | <b>2006</b> |
| <b>Operating Activities:</b>  |  |             |
| Net income  | \$ 179,599                                 | \$ 159,013  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |             |
| Depreciation and amortization   | 27,154                                     | 19,249      |
| Amortization of debt issuance costs   | 2,895                                      | 1,677       |
| Deferred income taxes   | (89)                                       | 143         |
| Stock-based compensation expense  | 11,199                                     | 8,487       |
| Gain on the sale of property, buildings and equipment                             | (262)                                      | (3,328)     |
| Excess tax benefit from stock-based compensation ( <b>Note 3</b> )                | (17,200)                                   | (26,741)    |
| Interest related to uncertain tax positions ( <b>Note 12</b> )                    | 644  |             |
| Changes in assets and liabilities   |  |             |
| Change in receivables facility  |  | (82,000)    |
| Trade and other receivables, net  | (62,281)                                   | (54,562)    |
| Inventories, net  | (23,605)                                   | (38,704)    |
| Prepaid expenses and other current assets   | 25,269                                     | 37,748      |
| Accounts payable  | 77,636                                     | 30,494      |
| Accrued payroll and benefit costs   | (26,189)                                   | 98          |
| Other current and noncurrent liabilities  | 12,439                                     | 13,496      |
| Net cash provided by operating activities   | 207,209                                    | 65,070      |
| <b>Investing Activities:</b>  |  |             |
| Capital expenditures  | (11,171)                                   | (14,872)    |
| Acquisition payments  | (7,860)                                    | (10,872)    |
| Proceeds from sale of assets  | 454  | 4,500       |
| Other investing activities  |  | (337)       |
| Net cash used by investing activities   | (18,577)                                   | (21,581)    |
| <b>Financing Activities:</b>  |  |             |
| Proceeds from issuance of long-term debt  | 783,900                                    | 265,404     |
| Repayments of long-term debt  | (620,693)                                  | (315,358)   |
| Debt issuance costs   | (520)                                      | (564)       |
| Proceeds from the exercise of stock options                                       | 6,000                                      | 6,496       |
| Excess tax benefit from stock-based compensation ( <b>Note 3</b> )                | 17,200                                     | 26,741      |
| Repurchase of common stock  | (410,140)                                  |             |
| Increase in bank overdrafts   | 30,802                                     | 13,428      |
| Real estate defeasance  |  | (1,692)     |
| Payments on capital lease obligations   | (1,087)                                    | (778)       |
| Net cash used by financing activities   | (194,538)                                  | (6,323)     |

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|  |           |           |
|--|-----------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | (2,991)   | (18)      |
| Net change in cash and cash equivalents                      | (8,897)   | 37,148    |
| Cash and cash equivalents at the beginning of period         | 73,395    | 22,125    |
| Cash and cash equivalents at the end of period               | \$ 64,498 | \$ 59,273 |

**Supplemental disclosures:**

Non-cash investing and financing activities:

|   |       |       |
|---|-------|-------|
| Property, plant and equipment acquired through capital leases | 1,896 | 1,438 |
| Increase in deferred acquisition payable                      |       | 500   |
| 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 and Singapore. WESCO currently operates more than 400 full service branches 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 2006 Annual Report on Form 10-K filed with the SEC. The December 31, 2006 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, 2007, the unaudited condensed consolidated statements of income for the three months and nine months ended September 30, 2007 and 2006, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2007 and 2006, 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.

*Recent Accounting Pronouncements*

In September 2006, the FASB issued 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. SFAS 157 is effective for fiscal years beginning after November 15, 2007. WESCO does not anticipate that the adoption of SFAS 157 will have an impact on its financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159) which provides companies with an option to report certain financial assets and liabilities at fair value, with changes in value recognized in earnings each reporting period. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. WESCO does not anticipate that the adoption of SFAS 159 will have an impact on its financial position, results of operations, or cash flows.

**3. STOCK-BASED COMPENSATION**

WESCO's stock-based employee compensation plans are comprised of fixed stock options and stock-settled stock appreciation rights. Beginning January 1, 2006, WESCO adopted SFAS No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, using the modified prospective method. Under SFAS 123R, compensation cost for all stock-based awards is measured at fair value on 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.

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During the three and nine months ended September 30, 2007 and 2006, WESCO granted the following stock-settled stock appreciation rights at the following weighted average assumptions:

|  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2007</b>                                 | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
| Stock-settled appreciations rights granted | 597,787                                     | 457,750     | 600,987                                    | 463,132     |
| Risk free interest rate                    | 4.9%  | 4.9%        | 4.9%                                       | 4.9%        |
| Expected life                              | 4 years                                     | 4 years     | 4 years                                    | 4 years     |
| Expected volatility                        | 40%   | 50%         | 40%  | 50%         |

For the three months and nine months ended September 30, 2007, the weighted average fair value per equity award granted was \$23.06.

WESCO recognized \$4.7 million and \$3.4 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2007 and 2006, respectively. WESCO recognized \$11.2 million and \$8.5 million (including \$0.1 million due to the adoption of SFAS 123R) of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2007 and 2006, respectively. As of September 30, 2007, there was \$22.4 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 2007, \$10.7 million in 2008, \$6.4 million in 2009 and \$2.1 million in 2010.

During the nine months ended September 30, 2007 and 2006, the total intrinsic value of awards exercised was \$50.2 million and \$78.9 million, respectively, and the total amount of cash received from the exercise of options was \$6.0 million and \$12.9 million, respectively. The tax benefit recorded for tax deductions associated with stock-based compensation plans for the nine months ended September 30, 2007 and 2006 totaled \$17.2 million and \$27.1 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 appreciation rights and related information for the nine months ended September 30, 2007:

|                                   | <b>Awards</b> | <b>Weighted<br/>Average<br/>Price<br/>Exercise</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, 2006  | 4,578,822     | \$ 20.76   |   |   |
| Granted                           | 600,987       | 60.46  |   |   |
| Exercised                         | (905,348)     | 9.67   |   |   |
| Forfeited                         | (26,533)      | 26.67  |   |   |
| Outstanding at September 30, 2007 | 4,247,928     | 28.72  | 6.0   | \$ 122,008  |
| Exercisable at September 30, 2007 | 2,166,363     | \$ 20.86   | 6.3   | \$ 45,188   |

**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*.

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

| <i>Amounts in thousands, except share data</i>   | <b>Three Months Ended<br/>September 30,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                                 | <b>2006</b> |
| Net income reported  | \$ 71,774                                   | \$ 59,385   |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 44,316,266                                  | 48,971,225  |
| Common shares issuable upon exercise of dilutive stock options   | 1,685,167                                   | 2,412,261   |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation)            | 609,783                                     | 1,118,928   |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 46,611,216                                  | 52,502,414  |
| Earnings per share:  |   |             |
| Basic  | \$ 1.62                                     | \$ 1.21     |
| Diluted  | \$ 1.54                                     | \$ 1.13     |

| <i>Amounts in thousands, except share data</i>   | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2007</b>                                | <b>2006</b> |
| Net income reported  | \$ 179,599                                 | \$ 159,013  |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 46,329,834                                 | 48,549,104  |
| Common shares issuable upon exercise of dilutive stock options   | 1,777,736                                  | 2,610,185   |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation)            | 1,043,925                                  | 1,130,119   |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 49,151,495                                 | 52,289,408  |
| Earnings per share:  |  |             |
| Basic  | \$ 3.88                                    | \$ 3.27     |
| Diluted  | \$ 3.65                                    | \$ 3.04     |

For the three-months ended September 30, 2007 and 2006, the computation of diluted earnings per share excluded stock-settled stock appreciation rights of approximately 0.5 million and 0.1 million at weighted average exercise prices of \$64 per share and \$61 per share, respectively. For the nine-months ended September 30, 2007 and 2006, the computation of diluted earnings per share excluded stock-settled stock appreciation rights of approximately 0.2 million and 0.1 million at a weighted average exercise prices of \$67 per share and \$61 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 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures) and the 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures) and collectively with the

2025 Debentures, the Debentures ) in cash, WESCO is not required to include any shares underlying the Debentures in its diluted weighted average shares outstanding until the average stock price per share for a fiscal quarter exceeds the conversion price of the respective Debentures. At such time, only the number of shares that would be issuable (under the treasury 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 prices for the three and nine month periods ended September 30, 2007 were approximately \$50 and \$59 per share, respectively, 609,783 shares and 1,043,925 shares, respectively, underlying the 2025 Debentures were included in the diluted share count. 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. For the three and nine month periods ended September 30, 2006, the effect of the 2025 Debentures on diluted earnings per share was a decrease of \$0.03 and \$0.07, respectively.

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WESCO maintains an accounts receivable securitization program (the Receivables Facility ) under which it 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.

On February 22, 2007, WESCO amended the Receivables Facility. The amendment increased the purchase commitment under the Receivables Facility from \$400 million to \$500 million, included Communications Supply Corporation and its subsidiaries as originators under the Receivables Facility, and extended the term of the Receivables Facility to May 9, 2010.

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, 2007 and December 31, 2006, accounts receivable eligible for securitization totaled approximately \$656.3 million and \$531.3 million, respectively. The consolidated balance sheets as of September 30, 2007 and December 31, 2006 reflect \$500.0 million and \$390.5 million, respectively, of account receivable balances legally sold to third parties, as well as the related borrowings for equal amounts.

Effective with the amendment in December 2006, WESCO re-gained control of previously transferred accounts receivable balances. EITF 02-09, *Accounting for Changes that Result in a Transferor Regaining Control of Financial Assets Sold*, requires that re-recognized assets be recorded at fair value. Accordingly, WESCO reflected re-recognized trade receivables with an estimated fair value of \$390.5 million in the balance sheet at December 31, 2006, along with the retained subordinated undivided interest of \$137.9 million. As a result of this change in accounting treatment, WESCO recognized a pre-tax gain of \$2.4 million during the three months ended March 31, 2007.

Interest expense and other costs associated with the Receivables Facility totaled \$7.7 million and \$20.8 million, respectively, for the three and nine month periods ended September 30, 2007. Prior to the amendment and restatement, interest expense and other costs related to the Receivables Facility were recorded as other expense in the consolidated statement of income. For the three and nine month periods ended September 30, 2006, these costs totaled \$5.8 million and \$17.1 million, respectively. At September 30, 2007, the interest rate on borrowings under this facility was approximately 6.3%.

**6. ACQUISITIONS**

Acquisitions were accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*. Accordingly, the purchase price for each business acquired has been allocated based on an independent appraisal of the fair value of intangible assets and management's estimate of the fair value of tangible assets acquired and liabilities assumed with the excess being recorded primarily as goodwill as of the effective date of the acquisition.

**Acquisition of Communications Supply Holdings, Inc.**

On November 3, 2006, WESCO International completed its acquisition of Communications Supply Holdings, Inc. ( Communications Supply ). On that day, a wholly-owned subsidiary of WESCO Distribution, Inc. ( WESCO Distribution ) merged with and into Communications Supply, which became a wholly-owned subsidiary of WESCO Distribution. WESCO paid at closing a cash merger price of approximately \$530.1 million, net of \$5.0 million of cash acquired and \$1.1 million of deferred payments, of which \$17.0 million was held in escrow to address post-closing adjustments relating to working capital and potential indemnification claims, with all amounts in escrow to be eligible for release after January 31, 2008. To fund the merger price paid at closing, WESCO Distribution borrowed \$105.0 million under its Receivables Facility and \$102.0 million under its revolving credit facility and used the

borrowings, together with the \$292.5 million of net proceeds from the offering of the 2026 Debentures and approximately \$30.6 million of other available cash.

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During the nine months ended September 30, 2007, WESCO evaluated the calculation of the acquired working capital, along with the calculation of various direct acquisition costs. These calculations resulted in an increase to the purchase price in the amount of approximately \$4.0 million. During the nine months ended September 30, 2007, WESCO made payments totaling \$4.4 million, which included purchase price adjustments totaling \$4.0 million and a deferred payment of \$0.4 million to the previous owners of Communications Supply.

In addition, during the three months ended September 30, 2007, WESCO finalized a plan for the integration of Communications Supply into the WESCO operations. Pursuant to EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*, charges totaling approximately \$0.7 million were recognized as a part of the purchase price allocation. These charges relate to termination benefit costs and are expected to be paid over the next 18 month period.

The final allocation of assets acquired and liabilities assumed for the 2006 acquisition is summarized below.

| <i>Amounts in thousands</i>                                    | <b>Communications<br/>Supply Holdings,<br/>Inc.<br/>(Final)</b> |
|--|---|
| Assets Acquired  |   |
| Cash and equivalents   | \$ 5,039  |
| Trade accounts receivable                                      | 102,582   |
| Inventories  | 84,868  |
| Deferred income taxes short-term                               | 7,199   |
| Other accounts receivable                                      | 8,286   |
| Prepaid expenses   | 1,491   |
| Income taxes receivable  | 15,925  |
| Property, buildings and equipment                              | 5,493   |
| Intangible assets  | 71,295  |
| Goodwill   | 354,522   |
| Other noncurrent assets  | 849   |
| Total assets acquired  | 657,549   |
| Liabilities Assumed  |   |
| Accounts payable   | 45,241  |
| Accrued and other current liabilities                          | 37,592  |
| Deferred acquisition payable                                   | 1,107   |
| Restructure reserve  | 687   |
| Deferred income taxes long-term                                | 32,140  |
| Other noncurrent liabilities                                   | 554   |
| Total liabilities assumed                                      | 117,321   |
| Fair value of net assets acquired, including intangible assets | \$ 540,228  |

Communications Supply is a national distributor of wire, cable, network infrastructure, and low voltage specialty system products for data, voice, security network communication and industrial applications. Communications Supply sells its products through its national network of 37 branches and sales offices located throughout the United States. Communications Supply also adds new product categories, new strategic supplier relationships and provides acquisition opportunities to penetrate further into the low voltage specialty systems and industrial OEM and MRO



markets.

The final purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. The fair value of the intangible assets was determined with the assistance of an independent appraiser. The allocation resulted in intangible assets of \$71.3 million and goodwill of \$354.5 million, of which \$11.7 million is deductible for tax purposes. The intangible assets include supplier relationships of \$21.4 million amortized over a range of 12 to 19 years, customer relationships of \$21.4 million amortized over a range of 4 to 7 years, non-compete agreements of \$0.7 million amortized over 3 years, and trademarks of \$27.8 million. Trademarks have an indefinite life and are not being amortized. No residual value is estimated for the depreciable intangible assets.

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The operating results of Communications Supply have been included in WESCO's consolidated financial statements since November 3, 2006. Unaudited pro forma results of operations for the three and nine month periods ended September 30, 2006 are included below as if the acquisition occurred on the first day of the period. This summary of the unaudited pro forma results of operations is not necessarily indicative of what WESCO's results of operations would have been had Communications Supply been acquired at the beginning of 2006, nor does it purport to represent results of operations for any future periods. Seasonality of sales is not a significant factor to these pro forma combined results of operations

|  | <b>Three Months<br/>Ended<br/>September 30,<br/>2006</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2006</b> |
|--|--|---|
| <i>(Amounts in thousands, except share data)</i> |  |   |
| Net sales  | \$ 1,507,777   | \$ 4,394,085  |
| Net income                                       | \$ 64,700  | \$ 170,402  |
| Earnings per common share:                       |  |   |
| Basic  | \$ 1.32  | \$ 3.51   |
| Diluted  | \$ 1.23  | \$ 3.26   |

**Acquisition of Carlton-Bates Company**

On September 29, 2005, WESCO acquired Carlton-Bates Company ( Carlton-Bates ), headquartered in Little Rock, Arkansas. As part of the acquisition, WESCO developed a plan for the integration of Carlton-Bates into the WESCO operations. This plan was finalized during the three-month period ended September 30, 2006. Pursuant to EITF Issue No. 95-3, certain charges related to the Carlton-Bates acquisition integration were recognized as a part of the purchase price allocation. During the three-months ended September 30, 2007, WESCO determined that charges totaling approximately \$0.5 million were no longer realizable. As a result, these charges were removed from the restructure reserve and recorded to other income. A summary of the charges for the nine-months ended September 30, 2007 is as follows:

| <i>Amounts in thousands</i>          | <b>Balance at<br/>December<br/>31,<br/>2006</b> | <b>Cash<br/>Payments</b> | <b>Adjustments</b> | <b>Balance at<br/>September<br/>30,<br/>2007</b> |
|--------------------------------------|---|--------------------------|--------------------|--|
| Termination Benefits                 | \$ 24   | \$ 23                    | \$ 1               | \$   |
| Cost of closing redundant facilities | 1,392   | 69                       | 493                | 830  |
| Other                                | 104   | 104                      |                    |  |
| Total                                | \$1,520   | \$ 196                   | \$ 494             | \$ 830   |

**Acquisition of Fastec Industrial Corp.**

On July 29, 2005, WESCO acquired the assets and business of Fastec Industrial Corp. To consummate this acquisition, WESCO issued a \$3.3 million promissory note. The note was paid in full in January 2007.

**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. 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, 2007, WESCO contributed

\$14.2 million to 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 stock.

**8. COMMITMENTS AND CONTINGENCIES**

As previously reported, WESCO was a defendant in a lawsuit in a state court in Florida in which a former supplier alleged that WESCO failed to fulfill its commercial obligations to purchase product. On March 8, 2007, WESCO and the plaintiff agreed to a complete settlement of the pending litigation. Under the terms of the settlement, the parties released all claims against each other in exchange for cash and other consideration. The impact of this settlement, including professional fees, on WESCO's 2007 results of operations was \$6.7 million (\$4.7 million after tax).

**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>2007</b>                                 | <b>2006</b> |
| Net income                              | \$ 71,774                                   | \$ 59,385   |
| Foreign currency translation adjustment | 1,592                                       | 87          |
| Comprehensive income                    | \$ 73,366                                   | \$ 59,472   |

| <i>Amounts in thousands</i>             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2007</b>                                | <b>2006</b> |
| Net income                              | \$ 179,599                                 | \$ 159,013  |
| Foreign currency translation adjustment | 9,354                                      | 2,995       |
| Comprehensive income                    | \$ 188,953                                 | \$ 162,008  |

**10. STOCKHOLDERS EQUITY**

On September 28, 2007, WESCO announced that the \$400 million stock repurchase program, reported on February 1, 2007, had been completed. WESCO also announced that its Board of Directors authorized a new stock repurchase program in the amount of up to \$400 million. 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 month periods ended September 30, 2007, WESCO repurchased approximately 1.2 million shares for \$65.1 million and approximately 6.4 million shares for \$400.0 million, respectively.

In addition, during the nine months ended September 30, 2007, WESCO purchased over 0.1 million shares from employees for approximately \$10.0 million in connection with the settlement of tax withholding obligations arising from the exercise of common stock units 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>2007</b>                                 | <b>2006</b> |
| Federal statutory rate   | 35.0%                                       | 35.0%       |
| State taxes, net of federal tax benefit                              | 2.4   | 3.4         |
| Nondeductible expenses   | 0.5   | 0.4         |
| Domestic tax benefit from foreign operations                         | (0.7)                                       | (2.8)       |
| Foreign tax rate differences <sup>(1)</sup>                          | (6.2)                                       | (2.4)       |
| Federal tax credits  | (0.1)                                       |             |
| Domestic production activity deduction                               | (0.3)                                       | (0.1)       |
| Adjustment related to uncertain tax positions                        | 1.2   |             |
| Adjustment related to foreign currency exchange gains <sup>(2)</sup> | (1.9)                                       |             |
| Change in valuation allowance <sup>(3)</sup>                         | (9.2)                                       |             |
| Other  | 1.1   |             |



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|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2007</b>                                | <b>2006</b> |
| Federal statutory rate   | 35.0%                                      | 35.0%       |
| State taxes, net of federal tax benefit                              | 2.8  | 2.7         |
| Nondeductible expenses   | 0.5  | 0.4         |
| Domestic tax benefit from foreign operations                         | (0.7)                                      | (2.3)       |
| Foreign tax rate differences <sup>(1)</sup>                          | (5.9)                                      | (2.7)       |
| Federal tax credits  | (0.1)                                      |             |
| Domestic production activity deduction                               | (0.3)                                      | (0.1)       |
| Adjustment related to uncertain tax positions                        | 0.4  | 0.1         |
| Adjustment related to foreign currency exchange gains <sup>(2)</sup> | (0.7)                                      |             |
| Change in valuation allowance <sup>(3)</sup>                         | (3.5)                                      |             |
| Other  | 0.3  |             |
|  | 27.8%                                      | 33.1%       |

(1) Includes a benefit of \$5.5 million and \$2.1 million for the three months ended September 30, 2007 and 2006, respectively, and \$14.5 million and \$6.1 million for the nine months ended September 30, 2007 and 2006, respectively, from the recapitalization of Canadian operations.

(2) 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.

- (3) 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.

## 12. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

On January 1, 2007, WESCO adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( FIN 48 ). As a result of the implementation of FIN 48, WESCO recognized an increase of approximately \$4.8 million in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings.

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 |

The total amount of unrecognized tax benefits were \$8.6 million and \$8.4 million as of September 30, 2007 and January 1, 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 \$6.8 million and \$5.9 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, 2007 and January 1, 2007, WESCO had an accrued liability of \$4.1 million and \$3.3 million, respectively, for interest related to uncertain tax positions, of which approximately \$0.3 million and \$0.8 million were recorded during the three and nine months ended September 30, 2007, respectively. As of January 1, 2007, WESCO recorded a liability for tax penalties of \$0.5 million.



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**13. OTHER FINANCIAL INFORMATION**

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

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

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEETS****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 |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Cash and cash equivalents                                | \$ (5)                          | \$ 31,926                      | \$ 32,577                     | \$   | \$ 64,498    |
| Trade accounts receivable                                |                                 |                                | 913,705                       |  | 913,705      |
| Inventories  |                                 | 410,614                        | 237,533                       |  | 648,147      |
| Other current assets                                     | (17)                            | 42,069                         | 44,995                        |  | 87,047       |
| Total current assets                                     | (22)                            | 484,609                        | 1,228,810                     |  | 1,713,397    |
| Intercompany receivables,<br>net                         |                                 | (1,329,627)                    | 1,762,063                     | (432,436)                                      |              |
| Property, buildings and<br>equipment, net                |                                 | 33,621                         | 71,055                        |  | 104,676      |
| Intangible assets, net                                   |                                 | 10,593                         | 126,588                       |  | 137,181      |
| Goodwill and other<br>intangibles, net                   |                                 | 375,444                        | 531,048                       |  | 906,492      |
| Investments in affiliates and<br>other noncurrent assets | 1,454,251                       | 2,824,692                      | 2,917                         | (4,263,675)                                    | 18,185       |
| Total assets   | \$1,454,229                     | \$ 2,399,332                   | \$3,722,481                   | \$(4,696,111)                                  | \$2,879,931  |
| Accounts payable   | \$                              | \$ 498,952                     | \$ 181,123                    | \$   | \$ 680,075   |
| Short-term debt  |                                 |                                | 500,000                       |  | 500,000      |
| Other current liabilities                                |                                 | 61,507                         | 120,702                       |  | 182,209      |
| Total current liabilities                                |                                 | 560,459                        | 801,825                       |  | 1,362,284    |
| Intercompany payables, net                               | 432,436                         |                                |                               | (432,436)                                      |              |
| Long-term debt   | 450,000                         | 308,621                        | 42,955                        |  | 801,576      |
| Other noncurrent liabilities                             |                                 | 85,589                         | 58,689                        |  | 144,278      |
| Stockholders' equity                                     | 571,793                         | 1,444,663                      | 2,819,012                     | (4,263,675)                                    | 571,793      |
| Total liabilities and<br>stockholders' equity            | \$1,454,229                     | \$ 2,399,332                   | \$3,722,481                   | \$(4,696,111)                                  | \$2,879,931  |

**December 31, 2006  
(In thousands)**

|  | WESCO | WESCO | Non-Guarantor | Consolidating<br>and<br>Eliminating |
|--|-------|-------|---------------|-------------------------------------|
|--|-------|-------|---------------|-------------------------------------|

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|  | International,<br>Inc. | Distribution,<br>Inc. | Subsidiaries | Entries        | Consolidated |
|--|------------------------|-----------------------|--------------|----------------|--------------|
| Cash and cash equivalents                                | \$ (2)                 | \$ 27,622             | \$ 45,775    | \$             | \$ 73,395    |
| Trade accounts receivable                                |                        |                       | 829,962      |                | 829,962      |
| Inventories  |                        | 402,082               | 211,487      |                | 613,569      |
| Other current assets                                     |                        | 42,242                | 58,844       |                | 101,086      |
| Total current assets                                     | (2)                    | 471,946               | 1,146,068    |                | 1,618,012    |
| Intercompany receivables,<br>net                         |                        | (1,487,030)           | 1,559,778    | (72,748)       |              |
| Property, buildings and<br>equipment, net                |                        | 34,472                | 72,544       |                | 107,016      |
| Intangible assets, net                                   |                        | 11,314                | 136,236      |                | 147,550      |
| Goodwill and other<br>intangibles, net                   |                        | 374,026               | 557,203      |                | 931,229      |
| Investments in affiliates and<br>other noncurrent assets | 1,285,977              | 2,693,146             | 2,604        | (3,961,551)    | 20,176       |
| Total assets   | \$ 1,285,975           | \$ 2,097,874          | \$ 3,474,433 | \$ (4,034,299) | \$ 2,823,983 |
| Accounts payable   | \$                     | \$ 434,092            | \$ 156,212   | \$             | \$ 590,304   |
| Short-term debt  |                        |                       | 390,500      |                | 390,500      |
| Other current liabilities                                |                        | 64,631                | 108,237      |                | 172,868      |
| Total current liabilities                                |                        | 498,723               | 654,949      |                | 1,153,672    |
| Intercompany payables, net                               | 72,748                 |                       |              | (72,748)       |              |
| Long-term debt   | 450,000                | 250,002               | 43,885       |                | 743,887      |
| Other noncurrent liabilities                             |                        | 74,472                | 88,725       |                | 163,197      |
| Stockholders equity                                      | 763,227                | 1,274,677             | 2,686,874    | (3,961,551)    | 763,227      |
| Total liabilities and<br>stockholders equity             | \$ 1,285,975           | \$ 2,097,874          | \$ 3,474,433 | \$ (4,034,299) | \$ 2,823,983 |

**Table of Contents****WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****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 expense (income)                          |                                 |                                |                               |  |              |
| Provision for income taxes                      | 4,345                           | (18,770)                       | 34,378                        |  | 19,953       |
| Net income                                      | \$71,774                        | \$ 66,652                      | \$ 77,545                     | \$(144,197)                                    | \$ 71,774    |

**Three Months Ended September 30, 2006  
(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                                       | \$                              | \$1,056,813                    | \$286,253                     | \$   | \$1,343,066  |
| Cost of goods sold                              |                                 | 849,990                        | 217,416                       |  | 1,067,406    |
| Selling, general and<br>administrative expenses | 4                               | 121,975                        | 46,851                        |  | 168,830      |
| Depreciation and amortization                   |                                 | 3,236                          | 3,417                         |  | 6,653        |
| Results of affiliates operations                | 52,300                          | 15,697                         |                               | (67,997)                                       |              |
| Interest (income) expense, net                  | (10,395)                        | 10,138                         | 5,351                         |  | 5,094        |
| Other expense (income)                          |                                 | 13,612                         | (7,798)                       |  | 5,814        |
| Provision for income taxes                      | 3,306                           | 21,259                         | 5,319                         |  | 29,884       |
| Net income                                      | \$ 59,385                       | \$ 52,300                      | \$ 15,697                     | \$(67,997)                                     | \$ 59,385    |

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

**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 expense (income)                          |                                 |                                |                               |  |              |
| Provision for income taxes                      | 12,801                          | 19,637                         | 36,825                        |  | 69,263       |
| Net income                                      | \$179,599                       | \$ 164,655                     | \$ 123,647                    | \$(288,302)                                    | \$ 179,599   |

**Nine Months Ended September 30, 2006**  
**(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                                       | \$                              | \$3,094,241                    | \$850,309                     | \$   | \$3,944,550  |
| Cost of goods sold                              |                                 | 2,496,907                      | 648,324                       |  | 3,145,231    |
| Selling, general and<br>administrative expenses | 7                               | 402,953                        | 105,280                       |  | 508,240      |
| Depreciation and amortization                   |                                 | 9,859                          | 9,390                         |  | 19,249       |
| Results of affiliates operations                | 138,146                         | 68,437                         |                               | (206,583)                                      |              |
| Interest (income) expense, net                  | (29,283)                        | 29,865                         | 16,518                        |  | 17,100       |
| Other expense (income)                          |                                 | 40,089                         | (22,952)                      |  | 17,137       |
| Provision for income taxes                      | 8,409                           | 44,859                         | 25,312                        |  | 78,580       |
| Net income                                      | \$159,013                       | \$ 138,146                     | \$ 68,437                     | \$(206,583)                                    | \$ 159,013   |

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

**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 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    |

**Nine Months Ended September 30, 2006**  
**(In thousands)**

|  | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
|  | \$ 29,776                       | \$ (1,844)                     | \$ 37,138                     | \$   | \$ 65,070    |

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|  |          |           |           |           |
|--|----------|-----------|-----------|-----------|
| Net cash provided (used) by operating activities             |          |           |           |           |
| Investing activities:  |          |           |           |           |
| Capital expenditures   |          | (13,515)  | (1,357)   | (14,872)  |
| Acquisitions   |          | (5,372)   | (5,500)   | (10,872)  |
| Proceeds from sale of building                               |          |           | 4,500     | 4,500     |
| Other  |          | (337)     |           | (337)     |
| Net cash used by investing activities                        |          | (19,224)  | (2,357)   | (21,581)  |
| Financing activities:  |          |           |           |           |
| Net (repayments) borrowings                                  | (63,013) | 31,136    | (4,649)   | (36,526)  |
| Equity transactions  | 33,237   |           |           | 33,237    |
| Real estate defiance   |          |           | (1,692)   | (1,692)   |
| Other  |          | (1,342)   |           | (1,342)   |
| Net cash (used) provided by financing activities             | (29,776) | 29,794    | (6,341)   | (6,323)   |
| Effect of exchange rate changes on cash and cash equivalents |          |           | (18)      | (18)      |
| Net change in cash and cash equivalents                      |          | 8,726     | 28,422    | 37,148    |
| Cash and cash equivalents at the beginning of year           |          | 18,088    | 4,037     | 22,125    |
| Cash and cash equivalents at the end of period               | \$       | \$ 26,814 | \$ 32,459 | \$ 59,273 |

**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 2006 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 and Singapore. We serve over 110,000 customers worldwide, offering over 1,000,000 products from over 26,000 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 88% of our net sales are generated from operations in the U.S., 10% from Canada and the remainder from other countries.

Sales increases due to the acquisitions completed in the fourth quarter 2006 and the second quarter of 2007 and cost containment initiatives, contributed to improved financial results for the first nine months of 2007. Sales increased \$569.7 million, or 14.4%, over the same period last year. Gross margin was 20.4% and 20.3% for the first nine months of 2007 and 2006, respectively. During the first nine months of 2007, sales from our recent acquisitions were \$524.5 million and accounted for the majority of the sales increase. Operating income improved by \$23.6 million, or 8.7%, primarily from operations acquired in the fourth quarter of 2006. The net income for the nine months ended September 30, 2007 and 2006 was \$179.6 million and \$159.0 million, respectively.

**Cash Flow**

We generated \$207.2 million in operating cash flow for the first nine months of 2007. Included in this amount was net income of \$179.6 million. Investing activities in the first nine months of 2007 included \$11.2 million in capital expenditures and approximately \$7.9 million of acquisition related payments. Financing activities during the first nine months of 2007 consisted of borrowings and repayments of \$649.4 million and \$591.4 million, respectively, related to our revolving credit facility, \$410.1 million related to stock repurchases, and net borrowings of \$109.5 million related to our accounts receivable securitization facility (the Receivables Facility), whereby we sell, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corp., a wholly owned, special purpose entity (SPE).

**Financing Availability**

As of September 30, 2007, we had approximately \$169.7 million in available borrowing capacity under our revolving credit facility, of which \$110.2 million is the U.S. sub-facility borrowing limit and \$59.5 million is the Canadian sub-facility borrowing limit.

**Outlook**

We believe that acquisitions and improvements in operations and our capital structure made in 2005 and 2006 have positioned us well for the remainder of 2007. Despite some shortfall in achieving growth targets during the first nine months of the year, we continue to see macroeconomic data and input from internal sales management, customers and suppliers that indicate activity levels in our major end markets will be similar to that experienced in the third quarter of 2007. Specifically, we believe that there are opportunities in the utility, non-residential construction, commercial and industrial sectors. In addition, we believe we will benefit from the forecasted increased electrical spending. As we drive to improve our operating performance for the last quarter of 2007, we continue to focus on selling, marketing, procurement and efficiency initiatives to increase market share, expand margins and meet cost containment objectives.

**Critical Accounting Policies and Estimates**

During the first quarter of 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*—an interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes. The adoption of FIN 48 resulted in an increase of approximately \$4.8 million in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. We have elected to record interest related to uncertain tax positions as a charge to interest expense. Penalties will continue to be recorded in income tax expense in the consolidated statement of income. There were no other



significant changes to our Critical Accounting Policies and Estimates referenced in the 2006 Annual Report on Form 10-K.

**Table of Contents****Results of Operations***Third Quarter of 2007 versus Third Quarter of 2006*

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<br/>September 30,</b> |             |
|--|---|-------------|
|  | <b>2007</b>                                 | <b>2006</b> |
| Net sales                                    | 100.0%                                      | 100.0%      |
| Gross profit                                 | 20.3  | 20.5        |
| Selling, general and administrative expenses | 12.6  | 12.5        |
| Depreciation and amortization                | 0.6   | 0.5         |
| Income from operations                       | 7.1   | 7.5         |
| Interest expense                             | 1.1   | 0.4         |
| Other expense                                |   | 0.5         |
| Income before income taxes                   | 5.9   | 6.6         |
| Provision for income taxes                   | 1.3   | 2.2         |
| Net income                                   | 4.6%  | 4.4%        |

Sales increases due to the recent acquisitions and our cost containment initiatives contributed to improved financial results for the third quarter of 2007. Net sales in the third quarter of 2007 totaled \$1,545.6 million versus \$1,343.1 million in the comparable period for 2006, an increase of \$202.5 million or 15.1% over the same period last year. During the third quarter of 2007, sales from our recent acquisitions were \$183.4 million and accounted for the majority of the sales increase.

Gross profit for the third quarter of 2007 was \$313.1 million versus \$275.7 million for the comparable period in 2006, and gross margin percentage of net sales was 20.3% in 2007 versus 20.5% in 2006. The gross margin percentage was positively impacted by higher margins from the acquisition completed in the fourth quarter of 2006, offset by an unfavorable sales mix and the absence of \$8.2 million of commodity based pricing inventory benefits realized in last year's comparable quarter.

Selling, general and administrative ( SG&A ) expenses in the third quarter of 2007 totaled \$194.8 million versus \$168.8 million in last year's comparable quarter. As a percentage of net sales, SG&A expenses were 12.6 % in the third quarter of 2007 compared to 12.5% in the third quarter of 2006, reflecting the impact of the recent acquisitions and an increase in payroll and benefit costs, offset by foreign currency transaction gains.

SG&A payroll expenses for the third quarter of 2007 of \$137.9 million increased by \$16.3 million, which in the aggregate was less than the \$17.7 million increase that resulted from the recent acquisitions. Contributing to the remaining \$1.4 million decrease in payroll expenses was the decrease in incentive compensation costs of \$4.9 million, the decrease in discretionary defined contribution costs of \$2.1 million offset by the increase in salaries and variable commissions of \$4.1 million and the increase in equity compensation expense of \$1.3 million. Other SG&A related payroll expenses increased \$0.2 million.

The remaining SG&A expenses for the third quarter of 2007 of \$56.9 million increased by approximately \$9.7 million compared to same quarter in 2006, which in the aggregate was less than the \$11.4 million increase that resulted from the recent acquisitions. Also contributing to the increase was a gain of \$3.4 million recognized in last year's comparable period for the sale of property. This increase in SG&A expenses was offset by \$5.0 million of foreign currency transaction gains and a \$0.1 million reduction in other SG&A expenses.

Depreciation and amortization for the third quarter of 2007 was \$9.0 million versus \$6.6 million in last year's comparable quarter. Of the \$2.4 million increase, \$2.0 million is related to the recent acquisitions, of which

\$1.4 million is due to the amortization expense of the intangible assets acquired and \$0.6 million is due to the depreciation of the fixed assets acquired.

Interest expense totaled \$17.6 million for the third quarter of 2007 versus \$5.1 million in last year's comparable quarter, an increase of approximately 245%. This increase is primarily due to the amendment and restatement of the Receivables Facility in December 2006, which required the reclassification of expenses related to the facility. Prior to December 2006, interest expense and other costs related to the Receivables Facility were recorded as other expense in the consolidated statement of income. Interest expense and other costs related to the Receivables Facility totaled \$7.7

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million for the third quarter of 2007 compared to \$5.8 million in the same quarter in 2006. The 32.8% increase was primarily attributable to elevated borrowing under the Receivables Facility to fund our share repurchase program. Also contributing to the increase in interest expense was the increase in borrowings under the revolving credit facility to fund the share repurchase program and the issuance of the 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures ) in November 2006.

There was no other expense recorded for the third quarter of 2007, a decrease of \$5.8 million from last year's comparable quarter. As mentioned above, costs associated with the Receivables Facility are no longer classified as other expense.

Income tax expense totaled \$20.0 million in the third quarter of 2007 and the effective tax rate was 21.8% compared to 33.5% in the same quarter in 2006. The current quarter's effective tax rate differed from the statutory rate primarily as a result of an adjustment recorded pursuant to SFAS No. 109 ( SFAS 109 ), *Accounting for Income Taxes*, to reverse a portion of the valuation allowance applied against deferred tax assets. The adjustment was based on achieving substantial profitability and a favorable assessment of our expected future operating results in jurisdictions in which our net operating losses may be utilized in future periods.

For the third quarter of 2007, net income increased by \$12.4 million to \$71.8 million, or \$1.54 per diluted share, compared with \$59.4 million, or \$1.13 per diluted share, for the third quarter of 2006. The increase in net income was primarily attributable to increased sales, cost containment efforts, foreign currency transaction gains and a decrease in the effective tax rate of 11.7%.

*Nine Months Ended September 30, 2007 versus Nine Months Ended September 30, 2006*

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>2007</b>                                | <b>2006</b> |
| Net sales                                    | 100.0%                                     | 100.0%      |
| Gross profit                                 | 20.4                                       | 20.3        |
| Selling, general and administrative expenses | 13.2                                       | 12.9        |
| Depreciation and amortization                | 0.6  | 0.5         |
| Income from operations                       | 6.5  | 6.9         |
| Interest expense                             | 1.0  | 0.5         |
| Other expense                                |  | 0.4         |
| Income before income taxes                   | 5.5  | 6.0         |
| Provision for income taxes                   | 1.5  | 2.0         |
| Net income                                   | 4.0%                                       | 4.0%        |

Sales increases due to the recent acquisitions, gross margin improvements and our cost containment initiatives contributed to improved financial results for the first nine months of 2007. Net sales in the first nine months of 2007 totaled \$4,514.3 million versus \$3,944.6 million in the comparable period for 2006, an increase of \$569.7 million or 14.4% over the same period last year. During the first nine months of 2007, sales from our recent acquisitions were \$524.5 million and accounted for the majority of the sales increase.

Gross profit for the first nine months of 2007 was \$920.2 million versus \$799.3 million for the comparable period in 2006, and gross margin percentage of net sales was 20.4% in 2007 versus 20.3% in 2006. The increase was attributable to higher margins from the acquisition completed in the fourth quarter of 2006 partially offset by an unfavorable sales mix and the absence of \$17.6 million of commodity based pricing inventory benefits realized in last year's comparable period.

SG&A expenses in the first nine months of 2007 totaled \$597.6 million versus \$508.2 million in last year's comparable period. As a percentage of net sales, SG&A expenses were 13.2 % in the first nine months of 2007 compared to 12.9% in the first nine months of 2006, reflecting the impact of the recent acquisitions, a legal settlement in the first quarter of 2007 and an increase in payroll and benefit costs offset by foreign currency transaction gains.

SG&A payroll expenses for the first nine months of 2007 of \$416.4 million increased by \$55.8 million compared to the same period in 2006, of which \$53.1 million resulted from the recent acquisitions. Of the remaining \$2.7 million increase in payroll expenses, \$14.5 million was from increased salaries and variable commissions resulting from increased sales and related gross margins, \$2.7 million was from increased equity compensation expense, \$11.8 million was from decreased incentive compensation costs, \$2.7 million was from decreased temporary labor costs and \$0.7 million was from decreased discretionary defined contribution costs. Other SG&A related payroll expenses increased \$0.7 million.

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The remaining SG&A expenses for the first nine months of 2007 of \$181.2 million increased by approximately \$33.6 million compared to same period in 2006, of which \$31.9 million resulted from the recent acquisitions. Contributing to the remaining \$1.7 million increase in SG&A expense was the increase in legal costs of \$7.9 million primarily related to a legal settlement and associated legal fees, offset by \$7.2 million of foreign currency transaction gains and a \$4.0 million reduction in bad debt expense due primarily to a large bankruptcy expense recorded in the prior year. Also contributing to the increase in SG&A expenses was a gain of \$3.4 million recognized in the prior year for the sale of property. Other SG&A expenses in the first nine months of 2007 increased \$1.6 million.

Depreciation and amortization for the first nine months of 2007 was \$27.2 million versus \$19.2 million in last year's comparable quarter. Of the \$8.0 million increase, \$5.7 million is related to the recent acquisitions, of which \$3.8 million is due to the amortization expense of the intangible assets acquired and \$1.9 million is due to the depreciation of the fixed assets acquired.

Interest expense totaled \$46.6 million for the first nine months of 2007 versus \$17.1 million in last year's comparable period, an increase of 172%. This increase is primarily due to the amendment and restatement of the Receivables Facility in December 2006, which required the reclassification of expenses related to the facility. Prior to December 2006, interest expense and other costs related to the Receivables Facility were recorded as other expense in the consolidated statement of income. Interest expense and other costs related to the Receivables Facility totaled \$20.8 million for the first nine months of 2007 compared to \$17.1 million in the same period in 2006. The 21.6% increase was attributable to elevated borrowing under the Receivables Facility to fund our share repurchase program offset by a \$2.4 million gain resulting from the change in accounting treatment of our Receivables Facility. Also contributing to the increase in interest expense was the increase in borrowings under the revolving credit facility to fund the share repurchase program and the issuance of the 2026 Debentures in November 2006.

There was no other expense recorded for the first nine months of 2007, a decrease of \$17.1 million from last year's comparable period. As mentioned above, costs associated with the Receivables Facility are no longer classified as other expense.

Income tax expense totaled \$69.3 million in the first nine months of 2007 and the effective tax rate was 27.8% compared to 33.1% in the same period in 2006. The effective tax rate differed from the statutory rate primarily as a result of an adjustment recorded pursuant to SFAS 109, to reverse a portion of the valuation allowance applied against deferred tax assets. The adjustment was based on achieving substantial profitability and a favorable assessment of our expected future operating results in jurisdictions in which our net operating losses may be utilized in future periods.

For the first nine months of 2007, net income increased by \$20.6 million to \$179.6 million, or \$3.65 per diluted share, compared with \$159.0 million, or \$3.04 per diluted share, for the first nine months of 2006. The increase in net income was primarily attributable to increased sales, gross margin expansion, foreign currency transaction gains and a decrease in the effective tax rate of 5.3%.

***Liquidity and Capital Resources***

Total assets at September 30, 2007 and December 31, 2006 were approximately \$2.8 billion. Total liabilities at September 30, 2007 compared to December 31, 2006 increased by \$247.4 million to \$2.3 billion. Contributing to the increase in total liabilities was an increase in short-term and long-term debt of \$163.9 million related to additional borrowings under our revolving credit facility and Receivables Facility to finance our stock repurchase program; increase in accounts payable of \$89.8 million as a result of increased cost of sales; increase in banks overdrafts of \$30.8 million and an increase in other noncurrent liabilities of \$14.8 million related primarily to the adoption of FIN 48. The increase in total liabilities was offset by a decrease in deferred income taxes of \$33.7 million related to purchase price adjustments to our 2006 acquisition and the reversal of a valuation allowance, and a decrease in accrued salaries and wages of \$25.2 million due to the payment in 2007 of 2006 management incentive compensation. Stockholders' equity decreased 25.1% to \$571.8 million at September 30, 2007, compared with \$763.2 million at December 31, 2006, primarily as a result of stock repurchases, which totaled \$410.1 million for the nine-months ended September 30, 2007. Also contributing to the change in stockholders' equity was net earnings of \$179.6 million offset by a charge of \$4.8 million related to the adoption of FIN 48, \$13.2 million related to the exercise of stock options and \$11.2 million related to stock-based compensation expense.

Our liquidity needs arise from working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2007, we had approximately \$169.7 million in available borrowing capacity under our revolving credit facility.

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We finance our operating and investing needs, as follows:

*Revolving Credit Facility*

On March 8, 2007, WESCO Distribution voluntarily reduced the borrowing limit under the revolving credit facility from \$440 million to \$365 million. The revolving credit facility matures in June 2010. During the first nine months of 2007, we borrowed \$649.4 million in aggregate under the facility and made repayments of \$591.4 million. At September 30, 2007, we had an outstanding balance of \$155.0 million. We were in compliance with all covenants and restrictions as of September 30, 2007.

*Mortgage Financing Facility*

In February 2003, we finalized a \$51 million mortgage financing facility, \$44.0 million of which was outstanding as of September 30, 2007. Borrowings under the mortgage financing 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%.

*7.50% Senior Subordinated Notes due 2017*

At September 30, 2007, \$150 million in aggregate principal amount of the 7.50% Senior Subordinated Notes due 2017 (the 2017 Notes ) were outstanding. The 2017 Notes were issued by WESCO Distribution 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. 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, 2007, \$150 million in aggregate principle amount of the 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures ) was outstanding. The 2025 Debentures were issued by WESCO International 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. 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*, 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, 2007 or at December 31, 2006.

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.

**Table of Contents***1.75% Convertible Senior Debentures due 2026*

At September 30, 2007, \$300 million in aggregate principal amount of the 2026 Debentures was outstanding. The 2026 Debentures were issued by WESCO International 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. 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, commencing May 15, 2007. 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 No. 133, *Accounting for Derivative Instruments and Hedge Activities*, the contingent interest feature of the 2026 Debentures is an embedded derivative that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at September 30, 2007 or at December 31, 2006.

The 2026 Debentures are convertible into cash and, in certain circumstances, shares of the Company'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.

*Accounts Receivable Securitization Facility*

We maintain a Receivables Facility under which 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.

On February 22, 2007, we amended the Receivables Facility. The amendment increased the purchase commitment under the Receivables Facility from \$400 million to \$500 million, included Communications Supply Corporation and its subsidiaries as originators under the Receivables Facility, and extended the term of the Receivables Facility to May 9, 2010.

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, 2007 and December 31, 2006, accounts receivable eligible for securitization totaled approximately \$656.3 million and \$531.3 million, respectively. The consolidated balance sheets as of September 30, 2007 and December 31, 2006 reflect \$500.0 million and \$390.5 million, respectively, of account receivable balances legally sold to third parties, as well as the related borrowings for equal amounts.

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Effective with the amendment in December 2006, we re-gained control of previously transferred accounts receivable balances. EITF 02-09, *Accounting for Changes that Result in a Transferor Regaining Control of Financial Assets Sold*, requires that re-recognized assets be recorded at fair value. Accordingly, we reflected re-recognized trade receivables with an estimated fair value of \$390.5 million in the balance sheet at December 31, 2006, along with the retained subordinated undivided interest of \$137.9 million. As a result of this change in accounting treatment, we recognized a pre-tax gain of \$2.4 million during the three months ended March 31, 2007.

Interest expense and other costs associated with the Receivables Facility totaled \$7.7 million and \$20.8 million, respectively, for the three and nine months ended September 30, 2007. Prior to the amendment and restatement, interest expense and other costs related to the Receivables Facility were recorded as other expense in the consolidated statement of income. For the three and nine month periods ended September 30, 2006, these costs totaled \$5.8 million and \$17.1 million, respectively. At September 30, 2007, the interest rate on borrowings under this facility was approximately 6.3%.

***Cash Flow***

***Operating Activities.*** Cash provided by operating activities for the first nine months of 2007 totaled \$207.2 compared with \$65.1 million of cash generated for the first nine months of 2006, primarily as the result of net income of \$179.6 million, adjusted for, among other items, depreciation and amortization of \$27.2 million of which \$5.7 million is related to the recent acquisitions, stock-based compensation of \$11.2 million and the reclassification of \$17.2 million related to the excess tax benefit from stock-based compensation expense. Cash provided by operating activities in the first nine months of 2007 included \$77.6 million in accounts payable related to increased sales, \$25.3 million in prepaid expenses and other current assets related to an income tax refund from our 2006 acquisition and the increase in taxable income, and \$12.4 million from other current and noncurrent liabilities. Cash used by operating activities in the nine months of 2007 included: \$62.3 million increase in trade and other receivables resulting primarily from higher sales volume; \$26.2 million reduction in accrued payroll and benefit costs from the payment of the 2006 management incentive compensation offset by increased payroll and benefit costs; and, \$23.6 million increase in inventory to accommodate increased sales demand. In the first nine months of 2006, primary sources of cash were net income of \$159.0 million, prepaid and other current assets of \$37.7 million, accounts payable of \$30.5 million related to increased sales and inventory, and other current and noncurrent liabilities of \$13.5 million primarily related to increased taxable income. Cash used by operating activities in the first nine months of 2006 included: \$82.0 million reduction in the Receivables Facility, which was accounted for as an off-balance sheet arrangement prior to December 2006; \$54.6 million increase in trade and other receivables resulting from higher sales volume, and \$38.7 million increase in inventories to accommodate increased sales demand.

***Investing Activities.*** Net cash used in investing activities for the first nine months of 2007 and 2006 was \$18.6 million and \$21.6 million, respectively, of which capital expenditures were \$11.2 million and \$14.9 million, respectively. In addition, expenditures of \$7.9 million in 2007 and \$10.9 million in 2006 were made pursuant to the terms of acquisition purchase agreements.

***Financing Activities.*** Net cash used by financing activities for the first nine months of 2007 and 2006 was \$194.5 million and \$6.3 million, respectively. During the first nine months of 2007, borrowings and repayments of long-term debt of \$649.4 million and \$591.4 million, respectively, were related to our revolving credit facility. Borrowings and repayments of \$134.5 million and \$25.0 million respectively, were related to our Receivables Facility and repayments of \$1.0 million were related to our mortgage financing facility. As previously mentioned, the Receivables Facility was amended and restated in December 2006, such that transactions under the facility no longer qualify for off-balance treatment and as a result are accounted for as secured borrowings. In addition, during the first nine months of 2007 we purchased approximately 6.4 million shares of our stock for \$400 million under our previously announced share repurchase program. During the first nine months of 2006, borrowings and repayments of long-term debt of \$265.4 million and \$294.4 million, respectively, were related to our revolving credit facility, repayments of \$20.0 million were related to an acquisition note payable and repayments of \$1.0 million were related to our mortgage financing facility. The exercise of stock-based compensation arrangements resulted in proceeds of \$6.0 million and \$6.5 million during the first nine months of 2007 and 2006, 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 2006 Annual Report on Form 10-K. Management believes that cash generated from operations, together with amounts available under our revolving credit facility and the accounts receivable securitization 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.

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**Inflation**

The rate of inflation affects different commodities and 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 did not have a significant impact on our sales growth for the three months ended September 30, 2007 however, an estimated \$20 to \$25 million of our sales growth was related to pricing for the nine months ended September 30, 2007.

**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 increase beginning in March with slight fluctuations per month through December.

**Impact of Recently Issued Accounting Standards**

In September 2006, the FASB issued 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. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We do not anticipate that the adoption of SFAS 157 will have an impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* ( SFAS 159 ) which provides companies with an option to report certain financial assets and liabilities at fair value, with changes in value recognized in earnings each reporting period. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not anticipate that the adoption of SFAS 159 will have an impact on our financial position, results of operations, or cash flows.

**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 and other risks that are described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2006, which is incorporated by reference herein, 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, 2007 that would require an update to the disclosures provided in our 2006 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 2007, 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. As a result of our acquisition of Communications Supply Holdings, Inc. in the fourth quarter of 2006, our internal control over financial reporting now includes the operations of that business.

**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.

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, 2007.

| <b>Period</b>  | <b>Total<br/>Number of<br/>Shares<br/>Purchased<br/>(In<br/>Thousands)<sup>(3)</sup></b> | <b>Average<br/>Price<br/>Paid Per<br/>Share</b> | <b>Total Number of<br/>Shares<br/>Purchased as Part<br/>of<br/>Publicly<br/>Announced Plans<br/>or Programs<br/>(In Thousands)<sup>(1)</sup></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) <sup>(1),(2)</sup></b> |
|----------------|--|---|--|--|
| July 2007      | 769.1  | \$57.03   | 763.5  | \$ 21.6  |
| August 2007    | 437.9  | \$49.39   | 436.4  | \$   |
| September 2007 | 0.1  | \$47.51   |  | \$   |
| Total          | 1,207.1  | \$54.25   | 1,199.9  |  |

(1) On September 28, 2007, we announced that the \$400 million stock repurchase program, reported on February 1, 2007, had been completed. We also announced that our Board of Directors authorized a new stock



repurchase program in the amount of up to \$400 million.

- (2) Excludes commission fees of \$22.9 thousand and \$13.1 thousand for the months of July and August, respectively.
- (3) Of the \$1.2 million shares acquired, 7,152 shares were purchased from employees for approximately \$0.4 million in connection with the settlement of tax withholding obligations arising from the exercise of stock-settled stock appreciation rights.

**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 9, 2007

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

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