

WESCO INTERNATIONAL INC

Form 10-Q

November 02, 2010

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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, 2010

Or

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

FOR THE TRANSITION PERIOD from _____ to _____

Commission file number 001-14989

WESCO International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

25-1723342

(IRS Employer Identification No.)

**225 West Station Square Drive
Suite 700**

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 454-2200

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of October 29, 2010, WESCO International, Inc. had 42,483,028 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)

| | September 30, 2010 | December 31, 2009 |
|---------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| <i>Amounts in thousands, except share data</i> | | |
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 103,120 | \$ 112,329 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$18,589 and \$20,060 in 2010 and 2009, respectively | 796,370 | 635,754 |
| Other accounts receivable | 23,175 | 31,808 |
| Inventories, net | 551,982 | 507,215 |
| Current deferred income taxes | 1,653 | 1,686 |
| Income taxes receivable | 23,006 | 29,135 |
| Prepaid expenses and other current assets | 18,506 | 13,077 |
| Total current assets | 1,517,812 | 1,331,004 |
| Property, buildings and equipment, net | 114,364 | 116,309 |
| Intangible assets, net | 75,790 | 81,308 |
| Goodwill | 876,533 | 863,410 |
| Investment in subsidiary | | 43,957 |
| Deferred income taxes | 37,655 | 33,518 |
| Other assets | 13,105 | 24,687 |
| Total assets | \$ 2,635,259 | \$ 2,494,193 |
| Liabilities and Stockholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 574,918 | \$ 453,154 |
| Accrued payroll and benefit costs | 51,683 | 30,949 |
| Current portion of long-term debt | 96,673 | 93,977 |
| Bank overdrafts | 25,645 | 32,191 |
| Current deferred income taxes | 7,959 | 7,301 |
| Other current liabilities | 77,966 | 63,262 |
| Total current liabilities | 834,844 | 680,834 |
| Long-term debt, net of discount of \$178,959 and \$182,689 in 2010 and 2009, respectively | 483,646 | 597,869 |
| Deferred income taxes | 190,779 | 191,068 |
| Other noncurrent liabilities | 30,693 | 28,133 |
| Total liabilities | \$ 1,539,962 | \$ 1,497,904 |

Commitments and contingencies (Note 9)

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, 56,060,026 and 55,967,824 shares issued and 42,502,097 and 42,416,796 shares outstanding in 2010 and 2009, respectively | 561 | 560 |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2010 and 2009, respectively | 43 | 43 |
| Additional capital | 1,005,730 | 992,855 |
| Retained earnings | 662,853 | 582,199 |
| Treasury stock, at cost; 17,897,360 and 17,890,459 shares in 2010 and 2009, respectively | (590,602) | (590,353) |
| Accumulated other comprehensive income | 16,712 | 10,985 |
| Total stockholders equity | 1,095,297 | 996,289 |
| Total liabilities and stockholders equity | \$ 2,635,259 | \$ 2,494,193 |

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

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

| <i>Amounts in thousands, except per share data</i> | Three Months Ended | | Nine Months Ended | |
|--------------------------------------------------------------------|---------------------------|--------------|--------------------------|--------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 1,324,555 | \$ 1,152,427 | \$ 3,732,275 | \$ 3,491,232 |
| Cost of goods sold (excluding depreciation and amortization below) | 1,066,769 | 931,536 | 3,004,121 | 2,808,296 |
| Selling, general and administrative expenses | 190,577 | 168,309 | 559,592 | 525,658 |
| Depreciation and amortization | 5,963 | 6,410 | 17,684 | 19,926 |
| Income from operations | 61,246 | 46,172 | 150,878 | 137,352 |
| Interest expense, net | 13,748 | 13,599 | 41,678 | 39,949 |
| Gain on debt exchange | | (5,961) | | (5,961) |
| Other income | | (1,391) | (4,284) | (4,118) |
| Income before income taxes | 47,498 | 39,925 | 113,484 | 107,482 |
| Provision for income taxes | 13,837 | 6,306 | 32,830 | 24,147 |
| Net income | \$ 33,661 | \$ 33,619 | \$ 80,654 | \$ 83,335 |
| Earnings per share : | | | | |
| Basic | \$ 0.79 | \$ 0.80 | \$ 1.90 | \$ 1.97 |
| Diluted | \$ 0.74 | \$ 0.79 | \$ 1.79 | \$ 1.95 |

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> | Nine Months Ended September 30, | |
|-------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
| | 2010 | 2009 |
| Operating Activities: | | |
| Net income | \$ 80,654 | \$ 83,335 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,684 | 19,926 |
| Amortization of debt issuance costs | 1,982 | 2,862 |
| Amortization of debt discount | 3,730 | 10,556 |
| Deferred income taxes | (4,551) | 5,413 |
| Stock-based compensation expense | 11,452 | 9,787 |
| Gain on debt exchange | | (5,961) |
| Gain on sale of property, buildings and equipment | (263) | (308) |
| Asset impairment charge | 3,793 | |
| Equity income, net of distributions in 2010 and 2009 of \$1,864 and \$4,786, respectively | (2,421) | 668 |
| Excess tax benefit from stock-based compensation | (713) | (197) |
| Interest related to uncertain tax positions | 551 | 863 |
| Changes in assets and liabilities | | |
| Trade and other receivables, net | (149,569) | 148,858 |
| Inventories, net | (40,859) | 117,086 |
| Prepaid expenses and other current assets | 3,352 | (8,577) |
| Accounts payable | 118,350 | (69,698) |
| Accrued payroll and benefit costs | 20,624 | (21,413) |
| Other current and noncurrent liabilities | 11,701 | (2,346) |
| Net cash provided by operating activities | 75,497 | 290,854 |
| Investing Activities: | | |
| Capital expenditures | (10,123) | (10,505) |
| Acquisition payments | (14,344) | (214) |
| Proceeds from sale of subsidiary | 40,000 | |
| Equity distribution | 4,054 | 1,328 |
| Collection of note receivable | 15,000 | |
| Proceeds from sale of assets | 925 | 111 |
| Net cash provided (used) by investing activities | 35,512 | (9,280) |
| Financing Activities: | | |
| Proceeds from issuance of long-term debt | 716,474 | 305,700 |
| Repayments of long-term debt | (830,798) | (545,458) |
| Debt issuance costs | (2,049) | (13,261) |
| Proceeds from the exercise of stock options | 742 | 312 |
| Excess tax benefit from stock-based compensation | 713 | 197 |

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| | | |
|--------------------------------------------------------------|------------|------------|
| Repurchase of common stock | (249) | (30) |
| Decrease in bank overdrafts | (6,545) | (11,122) |
| Payments on capital lease obligations | (1,234) | (1,500) |
| Net cash used by financing activities | (122,946) | (265,162) |
| Effect of exchange rate changes on cash and cash equivalents | 2,728 | 8,595 |
| Net change in cash and cash equivalents | (9,209) | 25,007 |
| Cash and cash equivalents at the beginning of period | 112,329 | 86,338 |
| Cash and cash equivalents at the end of period | \$ 103,120 | \$ 111,345 |

Supplemental disclosures:

Non-cash investing and financing activities:

| | | |
|-------------------------------------------------------------------|--------|--------|
| Property, buildings and equipment acquired through capital leases | \$ 285 | \$ 805 |
|-------------------------------------------------------------------|--------|--------|

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"), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical construction products and electrical and industrial maintenance, repair and operating ("MRO") supplies and is a provider of supply chain services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 100,000 customers globally, through approximately 380 full service branches and seven distribution centers located primarily in the United States, Canada, and Mexico, with additional locations in the United Kingdom, Singapore, China, Australia, Africa and the United Arab Emirates.

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 2009 Annual Report on Form 10-K filed with the SEC. The December 31, 2009 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States.

The unaudited condensed consolidated balance sheet as of September 30, 2010, the unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2010 and 2009, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009, 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

Pronouncements issued by the Financial Accounting Standards Board (the "FASB") or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to WESCO's financial position, results of operations or cash flows.

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

During the three and nine month periods ended September 30, 2010 and 2009, WESCO granted the following stock-settled stock appreciation rights and restricted stock units at the following weighted average assumptions:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Stock-settled appreciations rights granted | 684,949 | 801,531 | 708,949 | 803,231 |
| Restricted stock units | 153,318 | 245,997 | 153,318 | 245,997 |
| Risk free interest rate | 1.8% | 2.3% | 1.8% | 2.3% |
| Expected life | 5.0 years | 4.5 years | 5.0 years | 4.5 years |
| Expected volatility | 49% | 51% | 49% | 51% |

For the three and nine months ended September 30, 2010, the weighted average fair value per stock-settled appreciation right granted was \$14.69 and \$14.71, respectively. For the three and nine months ended September 30, 2009, the weighted average fair value per stock-settled appreciation right granted was \$11.15 and \$13.65, respectively. For the three and nine months ended September 30, 2010 and 2009, the weighted average fair value per restricted stock unit granted was \$33.05 and \$25.37, respectively.

WESCO recognized \$4.3 million and \$3.5 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2010 and 2009, respectively. WESCO recognized \$11.5 million and \$9.8 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, there was \$23.4 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$4.3 million is expected to be recognized over the remainder of 2010, \$11.4 million in 2011, \$5.8 million in 2012 and \$1.9 million in 2013.

During the nine months ended September 30, 2010 and 2009, the total intrinsic value of awards exercised was \$2.2 million and \$0.6 million, respectively, and the total amount of cash received from the exercise of options was \$0.7 million and \$0.3 million, respectively. The tax impact associated with the exercise of awards for the nine months ended September 30, 2010 and 2009 was a benefit of \$0.6 million and a detriment of \$0.1 million, respectively, and was recorded to additional capital.

The following table sets forth a summary of stock options and stock-settled stock appreciation rights and related information for the nine months ended September 30, 2010:

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| | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (In Years) | Aggregate Intrinsic Value (In Thousands) |
|-----------------------------------|-----------|----------------------------------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------|
| Outstanding at December 31, 2009 | 4,226,153 | \$ 35.30 | | |
| Granted | 708,949 | 33.19 | | |
| Exercised | (115,043) | 16.01 | | |
| Forfeited | (90,417) | 41.59 | | |
| Outstanding at September 30, 2010 | 4,729,642 | 35.33 | 6.7 | \$ 27,273 |
| Exercisable at September 30, 2010 | 3,221,554 | 36.99 | 5.6 | \$ 21,393 |

The following table sets forth a summary of restricted stock units and related information for the nine months ended September 30, 2010:

| | Awards | Weighted Average Fair Value |
|--------------------------------|---------------|------------------------------------------------|
| Unvested at December 31, 2009 | 243,942 | \$ 25.37 |
| Granted | 153,318 | 33.05 |
| Vested | (675) | 25.37 |
| Forfeited | (3,085) | 25.37 |
| Unvested at September 30, 2010 | 393,500 | \$ 28.36 |

4. EARNINGS PER SHARE

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

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

| <i>Amounts in thousands, except share and per share data</i> | Three Months Ended | |
|----------------------------------------------------------------------------------------------------------------------|---------------------------|-------------|
| | September 30, | |
| | 2010 | 2009 |
| Net income reported | \$ 33,661 | \$ 33,619 |
| Weighted average common shares outstanding used in computing basic earnings per share | 42,491,186 | 42,278,729 |
| Common shares issuable upon exercise of dilutive stock options | 795,649 | 479,142 |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation) | 2,237,606 | |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 45,524,441 | 42,757,871 |
| Earnings per share: | | |
| Basic | \$ 0.79 | \$ 0.80 |
| Diluted | \$ 0.74 | \$ 0.79 |

| <i>Amounts in thousands, except share and per share data</i> | Nine Months Ended | |
|----------------------------------------------------------------------------------------------------------------------|--------------------------|-------------|
| | September 30, | |
| | 2010 | 2009 |
| Net income reported | \$ 80,654 | \$ 83,335 |
| Weighted average common shares outstanding used in computing basic earnings per share | 42,470,820 | 42,264,440 |
| Common shares issuable upon exercise of dilutive stock options | 728,706 | 381,175 |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation) | 1,981,055 | — |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 45,180,581 | 42,645,615 |
| Earnings per share: | | |
| Basic | \$ 1.90 | \$ 1.97 |
| Diluted | \$ 1.79 | \$ 1.95 |

For the three months ended September 30, 2010 and 2009, the computation of diluted earnings per share excluded 2.5 million and 3.3 million, respectively, of stock-settled stock appreciation rights at weighted average exercise prices of \$47 per share and \$42 per share, respectively. For the nine months ended September 30, 2010 and 2009, the computation of diluted earnings per share excluded 2.5 million and 3.7 million, respectively, of stock-settled stock appreciation rights at weighted average exercise prices of \$47 per share and \$40 per share, respectively. These amounts were excluded because their effect would have been antidilutive.

Because of WESCO's obligation to settle the par value of the 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures), the 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures) and the 6.0% Convertible Senior Debentures due 2029 (the 2029 Debentures) and together with the 2025 Debentures and 2026 Debentures, the Debentures) in cash, WESCO is not required to include any shares underlying the Debentures in its

diluted weighted average shares outstanding until the average stock price per share for the period exceeds the conversion price of the respective Debentures. At such time, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) would be included, which is based upon the amount by which the average stock price exceeds the conversion price. The conversion prices of the 2029 Debentures, 2026 Debentures and 2025 Debentures are \$28.87, \$88.15 and \$41.86, respectively. Share dilution is limited to a maximum of 11,951,939 shares for the 2029 Debentures, 2,507 shares for the 2026 Debentures and 2,205,434 shares for the 2025 Debentures. Since the average stock prices for the three and nine month periods ended September 30, 2010 were \$35.51 per share and \$34.60 per share, respectively, 2,237,606 shares and 1,981,055 shares, respectively, underlying the 2029 Debentures were included in the diluted share count. The effect of the 2029 Debentures on diluted earnings per share was a decrease of approximately \$0.04 and \$0.08, respectively. There was no impact of the Debentures on diluted earnings per share for the three and nine month periods ended September 30, 2009.

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

At September 30, 2010, the aggregate borrowing capacity under the revolving credit facility was \$375 million. The revolving credit facility consists of two separate sub-facilities: (i) a U.S. sub-facility and (ii) a Canadian sub-facility and includes a letter of credit sub-limit of up to \$55 million. The facility matures on November 1, 2013 and is collateralized by the inventory of WESCO Distribution, Inc. (WESCO Distribution) and the inventory and accounts receivable of WESCO Distribution Canada, L.P. WESCO Distribution's obligations under the revolving credit facility have been guaranteed by WESCO International, Inc. (WESCO International) and by certain of WESCO Distribution's subsidiaries.

On February 19, 2010, WESCO Distribution, along with certain of its subsidiaries, entered into a Limited Consent and Amendment No. 4 (the Amendment) to its Third Amended and Restated Revolving Credit Agreement, dated November 1, 2006 (the Agreement). The Amendment permits WESCO to complete certain legal entity restructuring actions, issue additional surety bonds and invest additional resources in foreign subsidiaries. In addition, the Amendment enhances WESCO's hedging capacities.

Pursuant to the terms of the Amendment, WESCO agreed to modify the Applicable Margins (as defined in the Agreement) paid to the lenders on borrowings and letters of credit. Availability under the facility is limited to the amount of eligible U.S. and Canadian inventory and Canadian receivables applied against certain advance rates. Depending upon the amount of excess availability under the facility, interest will be calculated at LIBOR plus a margin that ranges between 2.25% and 2.875% or at the Index Rate (prime rate published by the Wall Street Journal) plus a margin that ranges between 1.00% and 1.625%. This change represented a 1.125% to 1.25% adjustment in borrowing margin over the previous rates. The fee for unused capacity associated with the facility was not changed and will range between 0.25% and 0.375%. At September 30, 2010, the interest rate on borrowings under this facility was approximately 2.7%.

As long as the average daily excess availability for both the preceding and projected succeeding 90-day period is greater than \$50 million, WESCO is permitted to make acquisitions and repurchase outstanding public stock and bonds. The above permitted transactions also are allowed if such excess availability is between \$25 million and \$50 million and WESCO's fixed charge coverage ratio, as defined by Agreement, is at least 1.25 to 1.0 after taking into consideration the permitted transaction. Additionally, if excess availability under the revolving credit facility is less than \$60 million, then WESCO must maintain a fixed charge coverage ratio of 1.1 to 1.0. At September 30, 2010 and December 31, 2009, WESCO had \$18.0 million and \$196.5 million, respectively, outstanding under the facility.

6. ACCOUNTS RECEIVABLE SECURITIZATION FACILITY

On September 7, 2010, WESCO Distribution, Inc. (WESCO Distribution) entered into an amendment of its existing accounts receivable securitization facility (the Receivables Facility), pursuant to the terms and conditions of the Second Amendment (the Amendment) to Third Amended and Restated Receivables Purchase Agreement, dated as of April 13, 2009 (the Agreement), by and among WESCO Receivables Corp., WESCO Distribution, the Purchasers and Purchaser Agents party thereto and PNC Bank, National Association, as Administrator. The Amendment lowers the program fee from 3.0% to 1.75%, the commitment fee from 1.0% to 0.75%, and clarifies terms included in the definition of fixed charges. The Amendment also extends the term of the Receivables Facility to September 6, 2013. Substantially all other terms and conditions of the Agreement remain unchanged.

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

The consolidated balance sheets as of September 31, 2010 and December 31, 2009 reflect \$110.0 million and \$45.0 million, respectively, of account receivables balances legally sold to third parties, as well as borrowings for equal amounts. At September 31, 2010, the interest rate on borrowings under this facility was approximately 2.6%.

7. EQUITY INVESTMENT

During the first quarter of 2008, WESCO and Deutsch Engineered Connecting Devices, Inc. (Deutsch) completed a transaction with respect to WESCO 's LADD operations, which resulted in a joint venture in which Deutsch owned a 60% interest and WESCO owned a 40% interest. WESCO accounted for its investment in the joint venture using the equity method of accounting. Accordingly, earnings from the joint venture were recorded as other income in the consolidated statement of income. Deutsch was entitled, but not obliged, to acquire the remaining 40% after January 1, 2010. Deutsch

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paid to WESCO aggregate consideration of approximately \$75.0 million, consisting of \$60.0 million in cash plus a \$15.0 million promissory note for its 60% interest in the joint venture.

On January 15, 2010, WESCO received \$1.8 million in accrued interest related to the promissory note for the period from January 2, 2008 to January 2, 2010. In addition, Deutsch and WESCO entered into an amended promissory note agreement. The amendment extended the maturity date for the payment of principal and interest to the earlier of (a) the closing date of Deutsch's option to acquire the remaining 40% joint venture interest or (b) the maturity date of Deutsch's credit facility or mezzanine financing facility. Interest accrued at a rate of 8.5% compounded annually. Management believed this rate was commensurate with a market rate of interest; therefore, no reserve or allowance was recorded against the promissory note.

On April 30, 2010, Deutsch notified WESCO it would exercise its option to purchase the remaining 40% of the LADD joint venture. The option price for Deutsch to acquire the remaining 40% of the joint venture was determined based upon a multiple of trailing earnings, with a minimum purchase price of \$40.0 million and maximum purchase price of \$50.0 million. The investment in the LADD joint venture at March 31, 2010 was \$43.4 million, and the estimated option exercise price was \$40.0 million. As a result, WESCO recorded a pre-tax impairment loss of \$3.4 million to selling, general and administrative expenses during the first quarter of 2010. On June 7, 2010, WESCO completed the sale of its 40% interest in the LADD joint venture and recorded an additional impairment charge of \$0.4 million to selling, general and administrative expenses. WESCO received \$40.0 million for its 40% interest plus \$15.0 million for the outstanding promissory note and \$0.5 million for accrued interest.

8. EMPLOYEE BENEFIT PLANS

A majority of WESCO's employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO's formation. WESCO also offers a deferred compensation plan for select individuals. For U.S. participants, WESCO will make contributions in an amount equal to 50% of the participant's total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO will make contributions in an amount ranging from 1% to 7% of the participant's eligible compensation based on years of continuous service. In addition, employer contributions may be made at the discretion of the Board of Directors. For the nine months ended September 30, 2010 and 2009, WESCO incurred charges of \$17.9 million and \$7.4 million, respectively, for all such plans. Effective January 1, 2010, WESCO reinstated all discretionary contributions that had been suspended since August 1, 2009 with the exception of a certain group of employees comprised of corporate officers and others. Reinstatement for these employees will be contingent upon WESCO reaching certain financial objectives. Contributions are made in cash to all employee retirement savings plan accounts, except for the deferred compensation plan. Employees then have the option to transfer balances allocated to their accounts into any of the available investment options, including WESCO common stock.

9. COMMITMENTS AND CONTINGENCIES

WESCO is a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that WESCO sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of \$52 million. WESCO has denied any liability, believes that it has meritorious defenses and intends to vigorously defend itself against these allegations. Accordingly, no liability is recorded for this matter as of September 30, 2010.

Table of Contents**10. COMPREHENSIVE INCOME**

The following tables set forth comprehensive income and its components:

| <i>Amounts in thousands</i> | Three Months Ended September 30, | |
|-----------------------------------------|---------------------------------------------|-------------|
| | 2010 | 2009 |
| Net Income | \$ 33,661 | \$ 33,619 |
| Foreign currency translation adjustment | 5,901 | 11,395 |
| Comprehensive income | \$ 39,562 | \$ 45,014 |

| <i>Amounts in thousands</i> | Nine Months Ended September 30, | |
|-----------------------------------------|--------------------------------------------|-------------|
| | 2010 | 2009 |
| Net Income | \$ 80,654 | \$ 83,335 |
| Foreign currency translation adjustment | 5,727 | 21,400 |
| Comprehensive income | \$ 86,381 | \$ 104,735 |

11. INCOME TAXES

The effective tax rate for the three months ended September 30, 2010 and 2009 was 29.1% and 15.8%, respectively, and the effective tax rate for the nine months ended September 30, 2010 and 2009 was 28.9% and 22.5%, respectively. WESCO's three and nine month effective tax rates are lower than the federal statutory rate of 35% primarily due to benefits resulting from the recapitalization of Canadian operations, which are partially offset by nondeductible expenses, state taxes and foreign rate differences. The effective tax rate for the nine months ended September 30, 2010 reflects discrete adjustments totaling \$1.4 million related to changes in uncertain tax positions and discrete adjustments totaling \$0.4 million related to prior years' taxes. The effective tax rate for the nine months ended September 30, 2009 included a discrete benefit of \$1.8 million related to the revaluation of deferred tax items associated with the convertible debt exchange and a discrete benefit of \$0.2 million related to prior years' taxes.

The total amount of unrecognized tax benefits was \$8.7 million and \$8.1 million as of September 30, 2010 and December 31, 2009, respectively. If these tax benefits were recognized in the consolidated financial statements, the portion of these amounts that would reduce WESCO's effective tax rate would be \$7.6 million and \$7.1 million, respectively. During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will decrease by \$1.2 million due to the resolution of federal, state and foreign tax examinations.

WESCO records interest related to uncertain tax positions as a part of interest expense in the consolidated statement of income. Penalties are recognized as part of income tax expense. As of September 30, 2010 and December 31, 2009, WESCO had an accrued liability for interest related to uncertain tax positions of \$5.0 million and \$4.5 million, respectively. A penalty of \$0.1 million was recorded during the nine months ended September 30, 2010.

12. OTHER FINANCIAL INFORMATION

WESCO Distribution, a wholly owned subsidiary of WESCO International, has outstanding \$150.0 million in aggregate principal amount of 7.50% Senior Subordinated Notes due 2017 (the 2017 Notes), and WESCO International has outstanding \$92.3 million in aggregate principal amount of 2025 Debentures, \$0.2 million in aggregate principal amount of 2026 Debentures and \$345.0 million in aggregate principal amount of 2029 Debentures. The 2017 Notes are fully and unconditionally guaranteed by WESCO International on a subordinated basis to all existing and future senior indebtedness of WESCO International. The Debentures are fully and unconditionally guaranteed by WESCO Distribution on a senior subordinated basis to all existing and future senior indebtedness of WESCO Distribution.

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

Table of Contents**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS****September 30, 2010
(In thousands)**

| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|----------------------------------------------------------|---------------------------------|--------------------------------|-------------------------------|------------------------------------------------|--------------|
| Cash and cash equivalents | \$ 2 | \$ 26,929 | \$ 76,189 | \$ | \$ 103,120 |
| Trade accounts receivable, net | | | 796,370 | | 796,370 |
| Inventories, net | | 327,626 | 224,356 | | 551,982 |
| Other current assets | | 6,128 | 60,212 | | 66,340 |
| Total current assets | 2 | 360,683 | 1,157,127 | | 1,517,812 |
| Intercompany receivables, net | | | 1,728,892 | (1,728,892) | |
| Property, buildings and equipment, net | | 39,573 | 74,791 | | 114,364 |
| Intangible assets, net | | 8,033 | 67,757 | | 75,790 |
| Goodwill and other intangibles, net | | 240,313 | 636,220 | | 876,533 |
| Investments in affiliates and other noncurrent assets | 1,945,859 | 3,223,013 | 41,451 | (5,159,563) | 50,760 |
| Total assets | \$ 1,945,861 | \$ 3,871,615 | \$ 3,706,238 | \$ (6,888,455) | \$ 2,635,259 |
| Accounts payable | \$ | \$ 397,514 | \$ 177,404 | \$ | \$ 574,918 |
| Other current liabilities | 109,131 | 28,753 | 122,042 | | 259,926 |
| Total current liabilities | 109,131 | 426,267 | 299,446 | | 834,844 |
| Intercompany payables, net | 551,680 | 1,177,212 | | (1,728,892) | |
| Long-term debt | 166,262 | 169,396 | 147,988 | | 483,646 |
| Other noncurrent liabilities | 23,242 | 158,134 | 40,096 | | 221,472 |
| Stockholders' equity | 1,095,297 | 1,940,606 | 3,218,957 | (5,159,563) | 1,095,297 |
| Total liabilities and stockholders' equity | \$ 1,945,612 | \$ 3,871,615 | \$ 3,706,487 | \$ (6,888,455) | \$ 2,635,259 |

**December 31, 2009
(In thousands)**

| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|---------------------------|---------------------------------|--------------------------------|-------------------------------|------------------------------------------------|--------------|
| Cash and cash equivalents | \$ 3 | \$ 16,924 | \$ 95,402 | \$ | \$ 112,329 |

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| | | | | | |
|-------------------------------------------------------|--------------|--------------|--------------|----------------|--------------|
| Trade accounts receivable, net | | | 635,754 | | 635,754 |
| Inventories, net | | 303,747 | 203,468 | | 507,215 |
| Other current assets | 394 | 18,353 | 56,959 | | 75,706 |
| Total current assets | 397 | 339,024 | 991,583 | | 1,331,004 |
| Intercompany receivables, net | | | 1,560,850 | (1,560,850) | |
| Property, buildings and equipment, net | | 38,819 | 77,490 | | 116,309 |
| Intangible assets, net | | 8,704 | 72,604 | | 81,308 |
| Goodwill and other intangibles, net | | 188,329 | 675,081 | | 863,410 |
| Investments in affiliates and other noncurrent assets | 1,837,883 | 3,169,830 | 33,656 | (4,939,207) | 102,162 |
| Total assets | \$ 1,838,280 | \$ 3,744,706 | \$ 3,411,264 | \$ (6,500,057) | \$ 2,494,193 |
| Accounts payable | \$ | \$ 326,996 | \$ 126,158 | \$ | \$ 453,154 |
| Other current liabilities | 99,528 | 37,080 | 91,072 | | 227,680 |
| Total current liabilities | 99,528 | 364,076 | 217,230 | | 680,834 |
| Intercompany payables, net | 554,257 | 1,006,593 | | (1,560,850) | |
| Long-term debt | 164,679 | 348,952 | 84,238 | | 597,869 |
| Other noncurrent liabilities | 23,527 | 192,661 | 3,013 | | 219,201 |
| Stockholders' equity | 996,289 | 1,832,424 | 3,106,783 | (4,939,207) | 996,289 |
| Total liabilities and stockholders' equity | \$ 1,838,280 | \$ 3,744,706 | \$ 3,411,264 | \$ (6,500,057) | \$ 2,494,193 |

Table of Contents**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****Three Months Ended September 30, 2010
(In thousands)**

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

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

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

Table of Contents**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****Nine Months Ended September 30, 2010
(In thousands)**

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

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

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

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

Nine Months Ended September 30, 2010
(In thousands)

| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|--------------------------------------------------------------|---------------------------------|--------------------------------|-------------------------------|------------------------------------------------|--------------|
| Net cash provided (used) by operating activities | \$ 1,370 | \$ 95,780 | \$ (21,653) | \$ | \$ 75,497 |
| Investing activities: | | | | | |
| Capital expenditures | | (9,835) | (288) | | (10,123) |
| Acquisition payments | | (14,344) | | | (14,344) |
| Proceeds from sale of subsidiary | | 40,000 | | | 40,000 |
| Collection of note receivable | | 15,000 | | | 15,000 |
| Other | | 4,979 | | | 4,979 |
| Net cash provided (used) by investing activities | | 35,800 | (288) | | 35,512 |
| Financing activities | | | | | |
| Net repayments | (2,577) | (112,981) | | | (115,558) |
| Equity transactions | 1,206 | | | | 1,206 |
| Other | | (8,594) | | | (8,594) |
| Net cash used by financing activities | (1,371) | (121,575) | | | (122,946) |
| Effect of exchange rate changes on cash and cash equivalents | | | 2,728 | | 2,728 |
| Net change in cash and cash equivalents | (1) | 10,005 | (19,213) | | (9,209) |
| Cash and cash equivalents at the beginning of year | 3 | 16,924 | 95,402 | | 112,329 |
| Cash and cash equivalents at the end of period | \$ 2 | \$ 26,929 | \$ 76,189 | \$ | \$ 103,120 |

Nine Months Ended September 30, 2009
(In thousands)

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

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

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13. SUBSEQUENT EVENT

Pursuant to the indenture governing the 2025 Debentures, holders had the right to require WESCO to repurchase all or a portion of their 2025 Debentures on October 15, 2010 at a cash repurchase price equal to 100% of the principal amount of the 2025 Debentures, plus accrued and unpaid interest. Holders elected to surrender an incidental amount for repurchase, leaving the outstanding balance of the 2025 Debentures essentially unchanged at \$92.3 million.

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 2009 Annual Report on Form 10-K. The matters discussed herein may contain forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. Certain of these risks are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as well as the Company's other reports filed with the Securities and Exchange Commission.

Company Overview

WESCO International, Inc., incorporated in 1993 and formed in February 1994 upon acquiring a distribution business from Westinghouse Electric Corporation, is a leading North American distributor of products and provider of supply chain services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 100,000 customers globally, including a majority of the Fortune 500, through approximately 380 full service branches and seven distribution centers located primarily in the United States, Canada and Mexico, with additional locations in the United Kingdom, Singapore, China, Australia, Africa and the United Arab Emirates. Approximately 83% of our net sales are generated from operations in the United States, 13% from Canada and the remainder from other countries.

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

Our financial results for the first nine months of 2010 reflect improving conditions in our served markets, higher product prices and product costs, favorable foreign currency exchange rates and the positive impact from our recent acquisition. Sales increased \$241.1 million, or 6.9%, over the same period last year. Cost of goods sold as a percentage of net sales was 80.5% and 80.4% for the first nine months of 2010 and 2009, respectively. Operating income increased by \$13.5 million, or 9.8%, primarily from organic growth of the base business. Net income for the nine months ended September 30, 2010 and 2009 was \$80.7 million and \$83.3 million, respectively.

Cash Flow

We generated \$75.5 million in operating cash flow for the first nine months of 2010. Included in this amount was net income of \$80.7 million, an increase in accounts payable of \$118.4 million and an increase in trade and other receivables of \$149.6 million. Investing activities included proceeds from the sale of our 40% interest in the LADD joint venture. Proceeds included \$40.0 million for our 40% interest, plus \$15.0 million for the collection of a promissory note. Refer to Note 7 of our notes to the condensed consolidated financial statements for additional information regarding the LADD joint venture. Investing activities for the first nine months of 2010 also included \$14.3 million for acquisition payments and \$10.1 million for capital expenditures. Financing activities consisted of borrowings and repayments of \$356.0 million and \$534.5 million, respectively, related to our revolving credit facility, and borrowings and repayments of \$360.0 million and \$295.0 million, respectively, related to our Receivables Facility.

Financing Availability

As of September 30, 2010, we had \$518.6 million in total available borrowing capacity. The available borrowing capacity under our revolving credit facility, which has a maturity date of November 1, 2013, was \$247.8 million, of which \$189.0 million is the U.S. sub-facility borrowing limit and \$58.8 million is the Canadian sub-facility borrowing limit. The available borrowing capacity under the Receivables Facility, which was amended and restated in

September 2010 to, among other things, extend the maturity date to September 6, 2013, was \$270.8 million at September 30, 2010. In addition, in August 2009, we completed an exchange offer pursuant to which we issued \$345.0 million aggregate principal amount of the

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2029 Debentures in exchange for approximately \$299.7 million and \$57.7 million aggregate principal amounts of our outstanding 2026 Debentures and 2025 Debentures, respectively. Our 2025 Debentures and 2029 Debentures cannot be redeemed or repurchased until October 2010 and September 2016, respectively. On October 15, 2010, holders of the 2025 Debentures surrendered an incidental amount for repurchase leaving the outstanding balance on 2025 Debentures essentially unchanged at \$92.3 million. Holders of the 2025 Debentures will not have another opportunity to require WESCO to repurchase their debentures until October 15, 2015. We may redeem all or part of the remaining 2025 Debentures at anytime. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. For further discussion refer to Liquidity and Capital Resources.

Critical Accounting Policies and Estimates

During the nine months period ended September 30, 2010, there were no significant changes to our critical accounting policies and estimates referenced in the 2009 Annual Report on Form 10-K.

Results of Operations*Third Quarter of 2010 versus Third Quarter of 2009*

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:

| | Three Months Ended | |
|----------------------------------------------|---------------------------|-------------|
| | September 30, | |
| | 2010 | 2009 |
| Net Sales | 100.0% | 100.0% |
| Cost of goods sold | 80.5 | 80.8 |
| Selling, general and administrative expenses | 14.4 | 14.6 |
| Depreciation and amortization | 0.5 | 0.6 |
| Income from operations | 4.6 | 4.0 |
| Interest expense | 1.0 | 1.2 |
| Gain on debt exchange | | (0.5) |
| Other income | | (0.1) |
| Income before income taxes | 3.6 | 3.4 |
| Provision for income taxes | 1.1 | 0.5 |
| Net income | 2.5% | 2.9% |

Net sales in the third quarter of 2010 totaled \$1,324.6 million versus \$1,152.4 million in the comparable period for 2009, an increase of \$172.2 million, or 14.9%, over the same period last year. Sales were positively impacted by growth in our served markets, higher product prices due primarily to rising supplier product and commodity prices, favorable foreign currency exchange rates and the acquisition completed in the second quarter of 2010.

Cost of goods sold for the third quarter of 2010 was \$1,066.8 million versus \$931.5 million for the comparable period in 2009, and cost of goods sold as a percentage of net sales was 80.5% and 80.8% in 2010 and 2009, respectively. The decrease in the cost of goods sold percentage was primarily due to higher supplier volume rebates and improved product billing margins, partially offset by an increase in inventory reserves.

Selling, general and administrative (SG&A) expenses in the third quarter of 2010 totaled \$190.6 million versus \$168.3 million in last year's comparable quarter. The increase in SG&A expenses is primarily due to the increase in commissions and incentives and the restoration of temporary cost reductions taken in the prior year. As a percentage of net sales, SG&A expenses were 14.4% in the third quarter of 2010 compared to 14.6% in the third quarter of 2009, primarily reflecting the increase in sales and the impact of headcount cost reduction actions taken in the prior year, partially offset by the impact of the reinstatement of discretionary benefits, the absence of mandatory unpaid leave of

absences in the current year, and an increase in variable operating expenses.

SG&A payroll expenses for the third quarter of 2010 of \$136.0 million increased by \$24.9 million compared to the same quarter in 2009. The increase in payroll expense was primarily due to the increase in commissions and incentives of \$11.2

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million due to increased sales and improved operating results. Also contributing to the increase in payroll expense was the reinstatement of 401(k) discretionary contributions and the absence of mandatory unpaid leave of absences in the current quarter, partially offset by the change in severance costs. The net impact of these temporary cost and discretionary benefit changes increased payroll expense by approximately \$7.0 million. Other SG&A payroll related expenses increased \$6.7 million.

The remaining SG&A expenses for the third quarter of 2010 of \$54.6 million decreased by \$2.6 million compared to same quarter in 2009.

Depreciation and amortization for the third quarter of 2010 was \$6.0 million versus \$6.4 million in last year's comparable quarter. The decrease is due to the reduction in capital expenditures in 2009 and 2010.

Interest expense totaled \$13.7 million for the third quarter of 2010 versus \$13.6 million in last year's comparable quarter, an increase of 1.1%. Interest expense for the third quarter of 2010 was impacted by the increase in interest rates, which was a result of amending the revolving credit facility in February 2010. The Receivables Facility was amended on September 7, 2010 to, among other things, reduce the program fee and commitment fee. It is expected that these changes will have a favorable impact on interest expense in the future. The application of relevant guidance concerning convertible debt instruments as of January 1, 2009 resulted in non-cash interest expense of \$1.2 million in 2010 and \$2.9 million in 2009.

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

There was no other income (non-operating) recorded during the third quarter of 2010. Other income totaled \$1.4 million for the third quarter of 2009. The decrease in other income is due to the sale of our 40% interest in the LADD joint venture, on June 7, 2010, to Deutsch, previously the 60% owner of the LADD joint venture. We accounted for our investment in the LADD joint venture on an equity basis, and earnings were reported as other income in the consolidated statement of income. We received equity income through May 31, 2010 and distributions through April 30, 2010, the date Deutsch notified WESCO of its exercise of its option to purchase the remaining 40% of the LADD joint venture. As a result of this transaction, in the future there will be no other income reported for the LADD joint venture.

Income tax expense totaled \$13.8 million in the third quarter of 2010 compared to \$6.3 million in last year's comparable quarter, and the effective tax rate was 29.1% compared to 15.8% in the same quarter in 2009. The increase in the effective tax rate is primarily due to the revaluation of deferred tax items in the third quarter of 2009 related to the convertible debt exchange.

For the third quarter of 2010, net income increased by \$0.1 million to \$33.7 million compared to \$33.6 million in the third quarter of 2009. Diluted earnings per share was \$0.74 for the third quarter of 2010 compared with \$0.79 per diluted share for the third quarter of 2009.

Nine Months Ended September 30, 2010 versus Nine Months Ended September 30, 2009

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:

| | Nine Months Ended September 30, | |
|----------------------------------------------|--------------------------------------------|-------------|
| | 2010 | 2009 |
| Net Sales | 100.0% | 100.0% |
| Cost of goods sold | 80.5 | 80.4 |
| Selling, general and administrative expenses | 15.0 | 15.1 |
| Depreciation and amortization | 0.5 | 0.6 |
| Income from operations | 4.0 | 3.9 |
| Interest expense | 1.1 | 1.1 |

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| | | |
|----------------------------|-------|-------|
| Gain on debt exchange | | (0.2) |
| Other income | (0.1) | (0.1) |
| Income before income taxes | 3.0 | 3.1 |
| Provision for income taxes | 0.8 | 0.7 |
| Net income | 2.2% | 2.4% |

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Net sales in the first nine months of 2010 totaled \$3,732.3 million versus \$3,491.2 million in the comparable period for 2009, an increase of \$241.1 million, or 6.9%, over the same period last year. Sales were positively impacted by improved conditions in our served markets, higher product prices due primarily to rising supplier product and commodity prices, favorable foreign currency exchange rates and the acquisition completed in the second quarter of 2010.

Cost of goods sold for the first nine months of 2010 was \$3,004.1 million versus \$2,808.3 million for the comparable period in 2009, and cost of goods sold as a percentage of net sales was 80.5% in 2010 and 80.4% in 2009. The increase in the cost of goods sold percentage was primarily due to an increase in inventory reserves due to higher inventory levels, partially offset by higher supplier volume rebates.

SG&A expenses in the first nine months of 2010 totaled \$559.6 million versus \$525.7 million in last year's comparable period. The increase in SG&A expenses is primarily due to the increase in commissions and incentives and the restoration of temporary cost reductions taken in the prior year. As a percentage of net sales, SG&A expenses were 15.0% and 15.1% in the first nine months of 2010 and 2009, respectively, primarily reflecting the increase in sales and the impact of headcount cost reduction actions taken in the prior year, partially offset by the impact of the reinstatement of discretionary benefits, the absence of mandatory unpaid leave of absences in the current year, an impairment charge related to our 40% interest in the LADD joint venture and an increase in variable operating expenses.

SG&A payroll expenses for the first nine months of 2010 of \$386.5 million increased by \$29.3 million compared to the same period in 2009. The increase in payroll expenses was primarily due to the increase in commissions and incentives of \$14.6 million due to increased sales and improved operating results. Also contributing to the increase in payroll expense was the reinstatement of 401(k) discretionary contributions and the absence of mandatory unpaid leave of absences in the first nine months of 2010, partially offset by the change in severance costs. The net impact of these temporary cost and discretionary benefit changes increased payroll expense by approximately \$15.4 million. Other SG&A related payroll expenses decreased \$0.7 million.

The remaining SG&A expenses for the first nine months of 2010 of \$173.1 million increased by approximately \$4.5 million compared to the same period in 2009. Included in this period's SG&A expenses was a charge of \$3.8 million related to the impairment of our 40% interest in the LADD joint venture and an increase in various operating expenses of \$0.7 million due to the increase in business activity levels.

Depreciation and amortization for the first nine months of 2010 was \$17.7 million versus \$19.9 million in last year's comparable period. The decrease is due to the reduction in capital expenditures in 2009 and 2010.

Interest expense totaled \$41.7 million for the first nine months of 2010 versus \$39.9 million in last year's comparable period, an increase of 4.3%. Interest expense for the first nine months of 2010 was impacted by the increase in interest rates, which was a result of amending both the Receivables Facility and the revolving credit facility in April 2009 and February 2010, respectively. The Receivables Facility was amended again on September 7, 2010 to, among other things, reduce the program fee and commitment fee. It is expected that these changes will have a favorable impact on interest expense in the future. The application of relevant guidance concerning convertible debt instruments as of January 1, 2009 resulted in non-cash interest expense of \$3.7 million in 2010 and \$10.6 million in 2009.

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

Other income totaled \$4.3 million for the first nine months of 2010 versus \$4.1 million in the comparable period for 2009. The increase in other income is due to the increase in the joint venture's income. We accounted for our investment in the LADD joint venture on an equity basis, and earnings were reported as other income in the consolidated statement of income. On June 7, 2010, we announced that we completed the sale of our 40% interest in the LADD joint venture to Deutsch, previously the 60% owner of the LADD joint venture. We received equity income through May 31, 2010 and

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distributions through April 30, 2010, the date Deutsch notified WESCO of its exercise of its option to purchase the remaining 40% of the LADD joint venture. As a result of this transaction, in the future there will be no other income reported for the LADD joint venture.

Income tax expense totaled \$32.8 million in the first nine months of 2010 compared to \$24.1 million in the first nine months of 2009, and the effective tax rate was 28.9% compared to 22.5% in the same period in 2009. The increase in the effective tax rate is due to the revaluation of deferred tax items in the third quarter of 2009 related to the convertible debt exchange and the partial recapitalization of Canadian debt in 2010.

For the first nine months of 2010, net income decreased by \$2.6 million to \$80.7 million compared to \$83.3 million in the first nine months of 2009. Diluted earnings per share was \$1.79 for the first nine months of 2010 compared to \$1.95 per diluted share for the first nine months of 2009. The decrease in net income was primarily due to the increase in operating costs, the increase in the effective tax rate and the gain recognized in the prior year related to the convertible debt exchange.

Liquidity and Capital Resources

Total assets were \$2.6 billion at September 30, 2010, compared to \$2.5 billion at December 31, 2009. The \$141.1 million increase in total assets was principally attributable to the increase in accounts receivable of \$160.6 million and the increase in inventory of \$44.8 million, which was partially offset by the decrease in investment in subsidiary of \$44.0 million related to the sale of our 40% interest in the LADD joint venture, the decrease in other assets of \$11.6 million related to the collection of the LADD joint venture promissory note, the decrease in cash of \$9.2 million, and the decrease in other accounts receivable of \$8.6 million. Total liabilities at September 30, 2010 and December 31, 2009 were \$1.5 billion. Total liabilities remained unchanged primarily as a result of the increase in accounts payable of \$121.8, which was mostly offset by the decrease in long-term debt of \$111.5 million. Stockholders' equity increased 9.9% to \$1,095.3 million at September 30, 2010, compared with \$996.3 million at December 31, 2009, primarily as a result of net earnings of \$80.7 million and stock-based compensation expense of \$11.5 million.

Our liquidity needs generally arise from working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2010, we had \$247.8 million in available borrowing capacity under our revolving credit facility, which, combined with our \$270.8 million of available borrowing capacity under our Receivables Facility and our invested cash, provides us with liquidity of \$582.0 million. During the second quarter of 2010, we used the proceeds from the sale of our 40% interest in the LADD joint venture, net of payments for the acquisition of the business of Potelcom Supply, Inc., to pay down our variable rate debt. We believe cash provided by operations and financing activities will be adequate to cover our current operational and business needs.

We communicate on a regular basis with our lenders regarding our financial and working capital performance and liquidity position. We were in compliance with all covenants and restrictions as of September 30, 2010.

We did not note any conditions or events during the third quarter of 2010 requiring an interim evaluation of impairment of goodwill. We will perform our annual impairment testing of goodwill and indefinite-lived intangible assets during the fourth quarter of 2010.

Over the next several quarters, we expect to maintain working capital productivity, and it is expected that excess cash will be directed primarily at debt reduction and acquisitions. Our near term focus will be managing our cost structure as we experience sales growth and maintaining ample liquidity and credit availability. We believe our balance sheet and ability to generate ample cash flow provides us with a durable business model and should allow us to fund expansion needs and growth initiatives in this time of economic recovery.

Cash Flow

Operating Activities. Cash provided by operating activities for the first nine months of 2010 totaled \$75.5 million compared with \$290.9 million of cash generated for the first nine months of 2009. Cash provided by operating activities in the first nine months of 2010 included net income of \$80.7 million and adjustments to net income totaling \$31.2 million. Cash flow generated from the changes in assets and liabilities was attributable to an increase in accounts payable of \$118.4 million, an increase in accrued payroll and benefit costs of \$20.6 million due to the increase in commissions, incentives and benefit costs, an increase in other current and noncurrent liabilities of \$11.7 million, and a decrease in prepaid expenses and other current assets of \$3.4 million. Cash used by operating

activities in the first nine months of 2010 included: \$149.6 million for the increase in trade and other receivables, resulting from an increase in sales; and \$40.9 million for the increase

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in inventory. During the first nine months of 2009, primary sources of cash were net income of \$83.3 million and adjustments to net income totaling \$43.6 million; a decrease in trade and other receivables of \$148.9 million, resulting from the decrease in sales; and a decrease in inventory of \$117.1 million. Cash used by operating activities in the first nine months of 2009 included: \$69.7 million for the decrease in accounts payable, resulting from the decrease in purchasing activity; \$21.4 million for the decrease in accrued payroll and benefit costs, resulting from the payment of the 2008 management incentive compensation; \$8.6 million for the increase in prepaid expenses and other current assets and \$2.3 million for the decrease in other current and noncurrent liabilities.

Investing Activities. Net cash provided by investing activities for the first nine months of 2010 was \$35.5 million, compared with \$9.3 million of net cash used during the first nine months of 2009. Included in 2010 were proceeds from the sale of our 40% interest in the LADD joint venture. Proceeds included \$40.0 million for our 40% interest, plus \$15.0 million for the collection of a promissory note. Investing activities for the first nine months of 2010 also included payments of \$14.3 million related to the acquisition of the business of Potelcom Supply, Inc. Capital expenditures were \$10.1 million and \$10.5 million in the first nine months of 2010 and 2009, respectively.

Financing Activities. Net cash used by financing activities for the first nine months of 2010 and 2009 was \$122.9 million and \$265.2 million, respectively. During the first nine months of 2010, borrowings and repayments of long-term debt of \$356.0 million and \$534.5 million, respectively, were made to our revolving credit facility. Borrowings and repayments of \$360.0 million and \$295.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$1.2 million to our mortgage financing facility. During the first nine months of 2009, borrowings and repayments of long-term debt of \$250.7 million and \$245.2 million, respectively, were made to our revolving credit facility. Borrowings and repayments of \$55.0 million and \$300.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$1.1 million to our mortgage financing facility.

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 2009 Annual Report on Form 10-K, other than the revolving credit facility disclosure and the Receivables Facility disclosure in Notes 5 and 6, respectively, to the condensed consolidated financial statements. Management believes that cash generated from operations, together with amounts available under our revolving credit facility and the Receivables Facility, will be sufficient to meet our working capital, capital expenditures and other cash requirements for the foreseeable future. However, there can be no assurances that this will continue to be the case.

Inflation

The rate of inflation affects different commodities, the cost of products purchased and ultimately the pricing of our different products and product classes to our customers. On an overall basis, our pricing related to inflation comprised an estimated \$90.0 million of our sales revenue for the nine months ended September 30, 2010.

Seasonality

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

Impact of Recently Issued Accounting Standards

See Note 2 of our notes to the condensed consolidated financial statements for information regarding the effect of new accounting pronouncements.

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Forward-Looking Statements

From time to time in this report and in other written reports and oral statements, references are made to expectations regarding our future performance. When used in this context, the words anticipates, plans, believes, estimates, intends, expects, projects, will and similar expressions may identify forward-looking statements, although not all forward-looking statements contain such words. Such statements including, but not limited to, our statements regarding business strategy, growth strategy, competitive strengths, productivity and profitability enhancement, competition, new product and service introductions and liquidity and capital resources are based on management's beliefs, as well as on assumptions made by and information currently available to, management, and involve various risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward-looking statement made by us or on our behalf. In light of these risks and uncertainties, there can be no assurance that the forward-looking information will in fact prove to be accurate. Certain of these risks are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as well as the Company's other reports filed with the Securities and Exchange Commission. We have undertaken no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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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, 2010 that would require an update to the disclosures provided in our 2009 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 2010, there were no changes in our internal control over financial reporting identified in connection with management's evaluation of the effectiveness of our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**Part II Other Information****Item 1. Legal Proceedings**

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

As initially reported in our 2008 Annual Report on Form 10-K, we are a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that we sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of \$52 million. We have denied any liability, continue to believe that we have meritorious defenses and intend to vigorously defend ourselves against these allegations. Accordingly, no liability is recorded for this matter as of September 30, 2010.

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

Item 6. Exhibits**(a) Exhibits**

- | | |
|------|---------------------------------------------------------------------------------------------------------------------|
| 10.1 | Term sheet, dated June 18, 2010, memorializing terms of employment of Kimberly Windrow by WESCO International, Inc. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Interactive Data File* |

* In accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission, Exhibit 101 is deemed not filed or part of a registration statement or prospectus for purposes of

Sections 11 or
12 of the
Securities Act
of 1933, is
deemed not
filed for
purposes of
Section 18 of
the Securities
Exchange Act
of 1934, and
otherwise is not
subject to
liability under
these sections.

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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 2, 2010

/s/ Richard P. Heyse

Richard P. Heyse
Vice President and Chief Financial
Officer
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