

WESCO INTERNATIONAL INC

Form 10-Q

May 06, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended March 31, 2009

Or

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

FOR THE TRANSITION PERIOD from _____ to _____

Commission file number 001-14989

WESCO International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

25-1723342

(IRS Employer Identification No.)

**225 West Station Square Drive
Suite 700**

Pittsburgh, Pennsylvania 15219

(Address of principal executive offices)

(412) 454-2200

(Registrant's telephone number, including area code)

N/A

(Former name 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 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 May 4, 2009, WESCO International, Inc. had 42,259,962 shares of common stock outstanding.

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

| <i>Amounts in thousands, except share data</i> | March 31, | December |
|---|---------------------|----------------------------|
| Assets | 2009 | 31, |
| | | 2008 ⁽¹⁾ |
| Current Assets: | | |
| Cash and cash equivalents | \$ 105,135 | \$ 86,338 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$18,373 and \$19,665 in 2009 and 2008, respectively | 687,801 | 791,356 |
| Other accounts receivable | 45,427 | 42,758 |
| Inventories, net | 561,070 | 605,678 |
| Current deferred income taxes | 2,856 | 2,857 |
| Income taxes receivable | 20,751 | 18,661 |
| Prepaid expenses and other current assets | 9,896 | 10,015 |
| Total current assets | 1,432,936 | 1,557,663 |
| Property, buildings and equipment, net | 116,859 | 119,223 |
| Intangible assets, net | 86,774 | 88,689 |
| Goodwill | 863,010 | 862,778 |
| Investment in subsidiary | 45,684 | 46,251 |
| Deferred income taxes | 15,892 | 16,811 |
| Other assets | 11,547 | 28,446 |
| Total assets | \$ 2,572,702 | \$ 2,719,861 |
| | | |
| Liabilities and Stockholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 524,261 | \$ 571,832 |
| Accrued payroll and benefit costs | 33,612 | 49,753 |
| Short-term debt | 245,000 | 295,000 |
| Current portion of long-term debt | 3,847 | 3,823 |
| Bank overdrafts | 18,419 | 30,367 |
| Current deferred income taxes | 1,467 | 1,516 |
| Other current liabilities | 50,271 | 53,718 |
| Total current liabilities | 876,877 | 1,006,009 |
| Long-term debt, net of discount of \$36,655 and \$40,501 in 2009 and 2008, respectively | 757,201 | 801,427 |
| Deferred income taxes | 139,630 | 136,736 |
| Other noncurrent liabilities | 23,299 | 20,585 |
| Total liabilities | \$ 1,797,007 | \$ 1,964,757 |

Commitments and contingencies

Stockholders Equity:

| | | |
|---|--------------|--------------|
| Preferred stock, \$.01 par value; 20,000,000 shares authorized, no shares issued or outstanding | | |
| Common stock, \$.01 par value; 210,000,000 shares authorized, 55,803,620 and 55,788,620 shares issued and 42,254,962 and 42,239,962 shares outstanding in 2009 and 2008, respectively | 558 | 557 |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2009 and 2008, respectively | 43 | 43 |
| Additional capital | 889,353 | 886,019 |
| Retained earnings | 500,373 | 477,111 |
| Treasury stock, at cost; 17,888,089 shares in 2009 and 2008 | (590,288) | (590,288) |
| Accumulated other comprehensive income | (24,344) | (18,338) |
| Total stockholders equity | 775,695 | 755,104 |
| Total liabilities and stockholders equity | \$ 2,572,702 | \$ 2,719,861 |

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

- (1) The balances reported as of December 31, 2008 have been revised as a result of the retrospective application of FSP ABP 14-1 on January 1, 2009 (see Note 3 Accounting for Convertible Debt Instruments).

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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 | |
|--|---------------------------|----------------------------|
| | March 31, | |
| | 2009 | 2008 ⁽¹⁾ |
| Net sales | \$ 1,179,590 | \$ 1,465,206 |
| Cost of goods sold (excluding depreciation and amortization below) | 941,413 | 1,169,561 |
| Selling, general and administrative expenses | 187,489 | 211,639 |
| Depreciation and amortization | 7,157 | 6,933 |
| Income from operations | 43,531 | 77,073 |
| Interest expense, net | 12,518 | 18,082 |
| Other income | (1,626) | (2,744) |
| Income before income taxes | 32,639 | 61,735 |
| Provision for income taxes | 9,377 | 19,045 |
| Net income | \$ 23,262 | \$ 42,690 |
| Earnings per share : | | |
| Basic | \$ 0.55 | \$ 1.00 |
| Diluted | \$ 0.55 | \$ 0.97 |

(1) The balances reported for the three months ended March 31, 2008 have been revised as a result of the retrospective application of FSP ABP 14-1 on January 1, 2009 (see Note 3 Accounting for Convertible Debt Instruments).

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)

| | Three Months Ended | |
|---|---------------------------|----------------------------|
| | March, 31 | |
| <i>Amounts in thousands</i> | 2009 | 2008 ⁽¹⁾ |
| Operating Activities: | | |
| Net income | \$ 23,262 | \$ 42,690 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,157 | 6,933 |
| Amortization of debt issuance costs | 858 | 839 |
| Amortization of debt discount | 3,846 | 3,628 |
| Deferred income taxes | 2,537 | (1,379) |
| Stock-based compensation expense | 3,161 | 3,223 |
| Loss on sale of property, buildings and equipment | 201 | |
| Loss on sale of subsidiary | | 3,005 |
| Equity income, net of distributions in 2009 of \$2,237 | 611 | (2,744) |
| Excess tax benefit from stock-based compensation | (62) | (1,568) |
| Interest related to uncertain tax positions | 222 | 232 |
| Changes in assets and liabilities | | |
| Trade and other receivables, net | 113,854 | (16,896) |
| Inventories, net | 42,880 | 26,904 |
| Prepaid expenses and other current assets | (1,466) | 8,211 |
| Accounts payable | (45,395) | 23,418 |
| Accrued payroll and benefit costs | (16,062) | (14,468) |
| Other current and noncurrent liabilities | (1,010) | 9,933 |
| Net cash provided by operating activities | 134,594 | 91,961 |
| Investing Activities: | | |
| Capital expenditures | (2,856) | (11,319) |
| Acquisition payments | (74) | (96) |
| Proceeds from sale of subsidiary | | 60,000 |
| Proceeds from sale of assets | 82 | 13 |
| Net cash (used) provided by investing activities | (2,848) | 48,598 |
| Financing Activities: | | |
| Short-term (repayments) borrowings, net | (50,000) | 3,000 |
| Proceeds from issuance of long-term debt | 71,000 | 241,500 |
| Repayments of long-term debt | (118,871) | (324,133) |
| Proceeds from the exercise of stock options | 112 | 2,233 |
| Excess tax benefit from stock-based compensation | 62 | 1,568 |
| Repurchase of common stock | | (24,933) |
| Decrease in bank overdrafts | (11,948) | (14,862) |
| Payments on capital lease obligations | (683) | (499) |

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| | | |
|--|------------|-----------|
| Net cash used by financing activities | (110,328) | (116,126) |
| Effect of exchange rate changes on cash and cash equivalents | (2,621) | (2,298) |
| Net change in cash and cash equivalents | 18,797 | 22,135 |
| Cash and cash equivalents at the beginning of period | 86,338 | 72,297 |
| Cash and cash equivalents at the end of period | \$ 105,135 | \$ 94,432 |

Supplemental disclosures:

Non-cash investing and financing activities:

| | | |
|---|-----|-----|
| Property, buildings and equipment acquired through capital leases | 507 | 574 |
|---|-----|-----|

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

(1) The balances reported for the three months ended March 31, 2008 have been revised as a result of the retrospective application of FSP ABP 14-1 on January 1, 2009.

(see Note 3 Accounting for Convertible Debt Instruments).

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

1. ORGANIZATION

WESCO International, Inc. and its subsidiaries (collectively, WESCO or the Company), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical supplies and equipment and is a provider of integrated supply procurement services with operations in the United States, Canada, Mexico, the United Kingdom, Nigeria, United Arab Emirates, Singapore, Australia and China. WESCO currently operates approximately 400 full service branch locations and seven distribution centers (four in the United States and three in Canada.)

2. ACCOUNTING POLICIES

Basis of Presentation

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

The unaudited condensed consolidated balance sheet as of March 31, 2009, the unaudited condensed consolidated statements of income for the three months ended March 31, 2009 and 2008, respectively, and the unaudited condensed consolidated statements of cash flows for the three months ended March 31, 2009 and 2008, respectively, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair statement of the results of the interim periods. All adjustments reflected in the unaudited condensed consolidated financial statements are of a normal recurring nature unless indicated. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value to new accounting transactions and does not apply to pronouncements that address share-based payment transactions. On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of SFAS No. 157. The FSP amends SFAS 157 to delay the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually) to fiscal years beginning after November 15, 2008. Except for the delay for nonfinancial assets and liabilities, SFAS 157 was effective for fiscal years beginning after November 15, 2007. Consistent with its requirements, WESCO adopted SFAS 157 for its financial assets and liabilities on January 1, 2008. WESCO's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank overdrafts and debt. The Company believes that the recorded values of its financial instruments, except for long-term debt, approximate fair value because of their nature and respective duration. The partial adoption of SFAS 157 did not impact WESCO's financial position, results of operations, or cash flows. On January 1, 2009, WESCO adopted SFAS 157 for its nonfinancial assets and liabilities which include those measured at fair value in goodwill and indefinite lived intangible asset impairment testing, and assets acquired and liabilities assumed in a business combination. The adoption of SFAS 157 for nonfinancial assets and liabilities did not impact WESCO's financial position, results of operations or cash flows. However, in the event that WESCO acquires a new business or has an impairment issue related to goodwill or indefinite lived intangible assets, the determination of fair value of the assets and liabilities will be subject to SFAS 157.

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

interest in the acquiree at the acquisition date fair value. SFAS 141R is designed to improve the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is in or after the beginning of the first annual reporting period beginning after December 15, 2008. As there were no acquisitions executed in the first quarter of 2009, the adoption of SFAS 141R did not impact WESCO's financial position, results of operations or cash flows.

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In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3) which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), and requires additional disclosure. The objective of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and shall be applied prospectively to intangible assets acquired after the effective date. The adoption of FSP FAS 142-3 did not impact WESCO's financial position, results of operations or cash flows.

3. ACCOUNTING FOR CONVERTIBLE DEBT INSTRUMENTS

On January 1, 2009, WESCO retrospectively applied the provisions of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1), to its 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures) and 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures). Prior to the adoption of FSP APB 14-1, WESCO accounted for its convertible debt instruments solely as long-term debt. FSP APB 14-1 requires an issuer of certain convertible debt instruments to separately account for the liability and equity components of convertible debt instruments in a manner that reflects the issuer's nonconvertible debt borrowing rate. This accounting treatment results in an increase in non-cash interest reported in the financial statements, a decrease in long-term debt, an increase in equity and an increase in deferred income taxes.

As of March 31, 2009 and December 31, 2008, \$150 million in aggregate principal amount of the 2025 Debentures was outstanding and \$300 million in aggregate principal amount of the 2026 Debentures was outstanding. As of March 31, 2009, the unamortized discount for the 2025 Debentures and 2026 Debentures was \$6.9 million and \$29.7 million, respectively. As of December 31, 2008, the unamortized discount for the 2025 Debentures and 2026 Debentures was \$8.1 million and \$32.4 million, respectively. The net carrying amounts of the liability components are classified as long-term debt in the consolidated balance sheets. The debt discounts are being amortized over a five-year period starting on the dates of issuance. The amortization period ends on October 15, 2010 for the 2025 Debentures and November 15, 2011 for the 2026 Debentures. As of March 31, 2009 and December 31, 2008, the aggregate equity component for the 2025 Debentures and 2026 Debentures totaled \$12.3 million and \$31.2 million, respectively.

In accordance with SFAS No. 109, *Accounting for Income Taxes*, WESCO recorded a deferred tax liability for the basis difference associated with the liability components. The initial recognition of deferred taxes was recorded as an adjustment to additional capital. In subsequent periods, the deferred tax liability is reduced and a deferred tax benefit is recognized in earnings as the debt discount is amortized to pre-tax income.

Interest expense for the 2025 Debentures and 2026 Debentures totaled \$6.1 million and \$5.9 million for the three months ended March 31, 2009 and 2008, respectively, of which \$3.8 million and \$3.6 million, respectively, was non-cash interest. Interest was calculated using an effective interest rate of 6.0%.

The following table provides the effect of applying FSP APB 14-1 on individual line items in the 2008 financial statements:

| | Previously Reported December 31, 2008 | Revised December 31, 2008 |
|---|--|--|
| Condensed Consolidated Balance Sheet | | |
| Other assets | \$ 29,562 | \$ 28,446 |
| Total assets | 2,720,977 | 2,719,861 |
| Long-term debt | 841,928 | 801,427 |
| Deferred income taxes | 120,459 | 136,736 |
| Total liabilities | 1,988,981 | 1,964,757 |
| Additional capital | 842,537 | 886,019 |

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| | | |
|--|-----------|-----------|
| Retained earnings | 497,485 | 477,111 |
| Total stockholders' equity | 731,996 | 755,104 |
| Total liabilities and stockholders' equity | 2,720,977 | 2,719,861 |

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| | Previously Reported Three Months Ended March 31, 2008 | Revised Three Months Ended March 31, 2008 |
|---|--|--|
| Condensed Consolidated Statement of Income | | |
| Interest expense, net | \$ 14,563 | \$ 18,082 |
| Income before income taxes | 65,254 | 61,735 |
| Provision for income taxes | 20,424 | 19,045 |
| Net Income | 44,830 | 42,690 |
| Earnings per share: | | |
| Basic | 1.05 | 1.00 |
| Diluted | 1.02 | 0.97 |
| | Three Months Ended March 31, 2008 | Three Months Ended March 31, 2008 |
| Condensed Consolidated Statement of Cash Flows | | |
| Net income | \$ 44,830 | \$ 42,690 |
| Adjustments to net income: | | |
| Amortization of debt issuance costs | 948 | 839 |
| Amortization of debt discount | | 3,628 |
| Deferred income taxes | | (1,379) |
| Net cash provided by operating activities | 91,961 | 91,961 |

4. STOCK-BASED COMPENSATION

WESCO's stock-based employee compensation plans are comprised of stock options and stock-settled stock appreciation rights. Beginning January 1, 2006, WESCO adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), using the modified prospective method. Under SFAS 123R, compensation cost for all stock-based awards is measured at fair value on the date of grant and compensation cost is recognized, net of estimated forfeitures, over the service period for awards expected to vest. The fair value of stock-based awards is determined using the Black-Scholes valuation model. The forfeiture assumption is based on WESCO's historical employee behavior that is reviewed on an annual basis. No dividends are assumed.

There were no stock-settled stock appreciation rights granted during the three months ended March 31, 2009. During the three months ended March 31, 2008, WESCO granted the following stock-settled stock appreciation rights at the following weighted average assumptions:

| | Three Months Ended March 31, 2008 |
|--|--|
| Stock-settled appreciations rights granted | 1,800 |
| Risk free interest rate | 2.5% |
| Expected life | 4 years |
| Expected volatility | 38% |

For the three months ended March 31, 2008, the weighted average fair value per equity award granted was approximately \$13.03.

WESCO recognized \$3.2 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended March 31, 2009 and 2008. As of March 31, 2009,

there was \$15.4 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$7.3 million is expected to be recognized over the remainder of 2009, \$6.1 million in 2010, and \$2.0 million in 2011.

During the three months ended March 31, 2009 and 2008, the total intrinsic value of awards exercised was \$0.2 million and \$5.5 million, respectively, and the total amount of cash received from the exercise of options was \$0.1 million and \$2.2 million, respectively. The tax benefit associated with the exercise of awards for the three months ended March 31, 2009 and 2008 totaled \$0.1 million and \$1.6 million, respectively, and was recorded as a credit to additional paid-in capital.

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The following table sets forth a summary of both stock options and stock-settled appreciation rights and related information for the three months ended March 31, 2009:

| | Awards | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (In Years) | Aggregate Intrinsic Value (In Thousands) |
|----------------------------------|---------------|--|---|---|
| Outstanding at December 31, 2008 | 3,933,035 | \$ 36.44 | | |
| Granted | | | | |
| Exercised | (20,000) | 7.25 | | |
| Forfeited | (53,062) | 45.59 | | |
| Outstanding at March 31, 2009 | 3,859,973 | 36.46 | 6.6 | \$ 6,653 |
| Exercisable at March 31, 2009 | 2,421,732 | \$ 29.56 | 5.3 | \$ 6,640 |

5. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average common shares outstanding during the periods. Diluted earnings per share are computed by dividing net income by the weighted average common shares and common share equivalents outstanding during the periods. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method, which includes consideration of stock-based compensation required by SFAS No. 123R and SFAS No. 128, *Earnings Per Share*.

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

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2009 | 2008 |
| <i>Amounts in thousands, except share and per share data</i> | | |
| Net income reported ⁽¹⁾ | \$ 23,262 | \$ 42,690 |
| Weighted average common shares outstanding used in computing basic earnings per share | 42,246,795 | 42,741,818 |
| Common shares issuable upon exercise of dilutive stock options | 317,395 | 1,291,654 |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 42,564,190 | 44,033,472 |
| Earnings per share: ⁽¹⁾ | | |
| Basic | \$ 0.55 | \$ 1.00 |
| Diluted | \$ 0.55 | \$ 0.97 |

(1) As a result of the retrospective application of

FSP ABP 14-1
on January 1,
2009, net
income and
earnings per
share were
revised for the
three months
ended
March 31, 2008
(see Note 3
Accounting for
Convertible
Debt
Instruments).

For the three months ended March 31, 2009 and 2008, the computation of diluted earnings per share excluded stock-settled stock appreciation rights of approximately 3.1 million and 1.1 million, respectively, at weighted average exercise prices of \$43 per share and \$63 per share, respectively. These amounts were excluded because their effect would have been antidilutive.

Under EITF Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*, and EITF Issue No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion*, and because of WESCO's obligation to settle the par value of the 2025 Debentures and the 2026 Debentures (collectively, the Debentures) in cash, WESCO is not required to include any shares underlying the Debentures in its diluted weighted average shares outstanding until the average stock price per share for the period exceeds the conversion price of the respective Debentures. At such time, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) would be included, which is based upon the amount by which the average stock price exceeds the conversion price. The conversion prices of the 2026 Debentures and 2025 Debentures are \$88.15 and \$41.86, respectively. Share dilution is limited to a maximum of 3,403,110 shares for the 2026 Debentures and 3,583,080 shares for the 2025 Debentures. Since the average stock price for the three month periods ended March 31, 2009 and 2008 was less than the conversion prices, there was no impact of the Debentures on diluted earnings per share.

Table of Contents**6. EQUITY INVESTMENT**

During the first quarter of 2008, WESCO and Deutsch Engineering Connecting Devices, Inc. (Deutsch) completed a transaction with respect to WESCO's LADD operations, which resulted in a joint venture in which Deutsch owns a 60% interest and WESCO owns a 40% interest. Deutsch paid to WESCO aggregate consideration of approximately \$75 million, consisting of \$60 million in cash plus a \$15 million promissory note, which is included in other accounts receivable in the consolidated balance sheet. Deutsch is entitled, but not obliged, to acquire the remaining 40% after January 1, 2010. As a result of this transaction, WESCO recognized an after-tax loss of approximately \$2.1 million during the first quarter of 2008. WESCO accounts for its investment in the joint venture using the equity method of accounting as prescribed by Accounting Principles Board No. 18, *The Equity Method of Accounting for Investments in Common Stock*. Accordingly, earnings from the joint venture are recorded as other income in the consolidated statement of income.

7. EMPLOYEE BENEFIT PLANS

A majority of WESCO's employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO's formation. WESCO also offers a deferred compensation plan for select individuals. For U.S. participants, WESCO will make contributions in an amount equal to 50% of the participant's total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO will make contributions in an amount ranging from 1% to 7% of the participant's eligible compensation based on years of continuous service. In addition, employer contributions may be made at the discretion of the Board of Directors. For the three months ended March 31, 2009 and 2008, WESCO incurred charges of \$5.4 million and \$5.8 million, respectively, for all such plans. Contributions are made in cash to employee retirement savings plan accounts. Employees then have the option to transfer balances allocated to their accounts into any of the available investment options, including WESCO common stock.

8. COMMITMENTS AND CONTINGENCIES

WESCO is a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that WESCO sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of \$52 million. WESCO has denied any liability, believes that it has meritorious defenses and intends to vigorously defend itself against these allegations. Accordingly, no liability is recorded for this matter as of March 31, 2009.

9. COMPREHENSIVE INCOME

The following tables set forth comprehensive income and its components:

| <i>Amounts in thousands</i> | Three Months Ended | |
|---|---------------------------|----------------------------|
| | March 31, | |
| | 2009 | 2008 ⁽¹⁾ |
| Net income | \$ 23,262 | \$ 42,690 |
| Foreign currency translation adjustment | (6,006) | (6,757) |
| Comprehensive income | \$ 17,256 | \$ 35,933 |

- (1) As a result of the retrospective application of FSP ABP 14-1 on January 1, 2009, net income and comprehensive income were revised for the

three months
ended
March 31, 2008
(see Note 3
Accounting for
Convertible
Debt
Instruments).

10. SHARE REPURCHASE PLAN

On September 28, 2007, WESCO announced that its Board of Directors authorized a stock repurchase program in the amount of up to \$400 million with an expiration date of September 30, 2009. The shares may be repurchased from time to time in the open market or through privately negotiated transactions. The stock repurchase program may be implemented or discontinued at any time by WESCO. No shares were repurchased during the three months ended March 31, 2009.

Table of Contents**11. INCOME TAXES**

The following table sets forth the reconciliation between the federal statutory income tax rate and the effective rate:

| | Three Months Ended | |
|---|---------------------------|----------------------------|
| | March 31, | |
| | 2009 | 2008 ⁽²⁾ |
| Federal statutory rate | 35.0% | 35.0% |
| State taxes, net of federal tax benefit | 3.0 | 2.6 |
| Nondeductible expenses | 0.4 | 0.5 |
| Domestic tax benefit from foreign operations | (0.9) | (0.5) |
| Foreign tax rate differences ⁽¹⁾ | (8.1) | (6.4) |
| Domestic production activity deduction | (0.3) | (0.2) |
| Adjustment related to uncertain tax positions | 0.4 | (0.5) |
| Other | (0.8) | 0.3 |
| | 28.7% | 30.8% |

(1) Includes a benefit of \$2.4 million and \$3.5 million for the three months ended March 31, 2009 and 2008, respectively, from the recapitalization of Canadian operations.

(2) As a result of the retrospective application of FSP ABP 14-1 on January 1, 2009, the effective rate was revised for the three months ended March 31, 2008 (see Note 3 Accounting for Convertible Debt Instruments).

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In accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of *FASB Statement No. 109*, WESCO analyzes its filing positions for all open tax years in all jurisdictions. The Company is currently under examination in several tax jurisdictions, both within the United States and outside the United States, and remains subject to examination until the statute of limitations expires for the respective tax jurisdictions. The following summary sets forth the tax years that remain open in the Company's major tax jurisdictions:

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

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

The total amounts of unrecognized tax benefits were \$7.7 million and \$7.5 million as of March 31, 2009 and December 31, 2008, respectively. If these tax benefits were recognized in the consolidated financial statements, the portion of these amounts that would reduce the Company's effective tax rate would be \$6.5 million and \$6.3 million, respectively. WESCO records interest related to uncertain tax positions as a part of interest expense in the consolidated statement of income. Any penalties are recognized as part of income tax expense. As of March 31, 2009 and December 31, 2008, WESCO had an accrued liability of \$3.7 million and \$3.5 million, respectively, for interest related to uncertain tax positions. There were no penalties recorded during the three months ended March 31, 2009.

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12. OTHER FINANCIAL INFORMATION

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

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

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

| | March 31, 2009 | | | | |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| | (In thousands) | | | | |
| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
| Cash and cash equivalents | \$ (2) | \$ 26,190 | \$ 78,947 | \$ | \$ 105,135 |
| Trade accounts receivable, net | | | 687,801 | | 687,801 |
| Inventories, net | | 389,228 | 171,842 | | 561,070 |
| Other current assets | (12,297) | 61,053 | 30,174 | | 78,930 |
| Total current assets | (12,299) | 476,471 | 968,764 | | 1,432,936 |
| Intercompany receivables, net | | (1,418,159) | 1,905,635 | (487,476) | |
| Property, buildings and equipment, net | | 45,703 | 71,156 | | 116,859 |
| Intangible assets, net | | 9,338 | 77,436 | | 86,774 |
| Goodwill and other intangibles, net | | 395,545 | 467,465 | | 863,010 |
| Investments in affiliates and other noncurrent assets | 1,688,807 | 3,075,198 | 17,944 | (4,708,826) | 73,123 |
| Total assets | \$ 1,676,508 | \$ 2,584,096 | \$ 3,508,400 | \$ (5,196,302) | \$ 2,572,702 |
| Accounts payable | \$ | \$ 401,285 | \$ 122,976 | \$ | \$ 524,261 |
| Short-term debt | | | 245,000 | | 245,000 |
| Other current liabilities | | 34,994 | 72,622 | | 107,616 |
| Total current liabilities | | 436,279 | 440,598 | | 876,877 |
| Intercompany payables, net | 487,476 | | | (487,476) | |
| Long-term debt | 413,337 | 302,942 | 40,922 | | 757,201 |
| Other noncurrent liabilities | | 160,758 | 2,171 | | 162,929 |
| Stockholders' equity | 775,695 | 1,684,117 | 3,024,709 | (4,708,826) | 775,695 |
| Total liabilities and stockholders' equity | \$ 1,676,508 | \$ 2,584,096 | \$ 3,508,400 | \$ (5,196,302) | \$ 2,572,702 |

December 31, 2008 ⁽¹⁾
(In thousands)

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| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Cash and cash equivalents | \$ | \$ 18,453 | \$ 67,885 | \$ | \$ 86,338 |
| Trade accounts receivable, net | | | 791,356 | | 791,356 |
| Inventories, net | | 421,178 | 184,500 | | 605,678 |
| Other current assets | (12,100) | 44,469 | 41,922 | | 74,291 |
| Total current assets | (12,100) | 484,100 | 1,085,663 | | 1,557,663 |
| Intercompany receivables, net | | (1,367,199) | 1,862,220 | (495,021) | |
| Property, buildings and equipment, net | | 46,389 | 72,834 | | 119,223 |
| Intangible assets, net | | 9,549 | 79,140 | | 88,689 |
| Goodwill and other intangibles, net | | 395,546 | 467,232 | | 862,778 |
| Investments in affiliates and other noncurrent assets | 1,671,724 | 3,074,554 | 19,133 | (4,673,903) | 91,508 |
| Total assets | \$ 1,659,624 | \$ 2,642,939 | \$ 3,586,222 | \$ (5,168,924) | \$ 2,719,861 |
| Accounts payable | \$ | \$ 445,346 | \$ 126,486 | \$ | \$ 571,832 |
| Short-term debt | | | 295,000 | | 295,000 |
| Other current liabilities | | 69,076 | 70,101 | | 139,177 |
| Total current liabilities | | 514,422 | 491,587 | | 1,006,009 |
| Intercompany payables, net | 495,021 | | | (495,021) | |
| Long-term debt | 409,499 | 350,601 | 41,327 | | 801,427 |
| Other noncurrent liabilities | | 111,422 | 45,899 | | 157,321 |
| Stockholders' equity | 755,104 | 1,666,494 | 3,007,409 | (4,673,903) | 755,104 |
| Total liabilities and stockholders' equity | \$ 1,659,624 | \$ 2,642,939 | \$ 3,586,222 | \$ (5,168,924) | \$ 2,719,861 |

(1) The balances reported as of December 31, 2008 have been revised as a result of the retrospective application of FSP ABP 14-1

on January 1,
2009 (see Note
3 Accounting
for Convertible
Debt
Instruments).

Table of Contents**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME****Three Months Ended March 31, 2009
(In thousands)**

| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales | \$ | \$ 834,870 | \$344,720 | \$ | \$ 1,179,590 |
| Cost of goods sold | | 672,681 | 268,732 | | 941,413 |
| Selling, general and administrative expenses | 2 | 145,689 | 41,798 | | 187,489 |
| Depreciation and amortization | | 3,595 | 3,562 | | 7,157 |
| Results of affiliates operations | 23,629 | 17,300 | | (40,929) | |
| Interest expense, net | 365 | 3,522 | 8,631 | | 12,518 |
| Other income | | (1,626) | | | (1,626) |
| Provision for income taxes | | 4,680 | 4,697 | | 9,377 |
| Net income | \$23,262 | \$ 23,629 | \$ 17,300 | \$ (40,929) | \$ 23,262 |

**Three Months Ended March 31, 2008 ⁽¹⁾
(In thousands)**

| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|---|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales | \$ | \$ 1,035,513 | \$429,693 | \$ | \$ 1,465,206 |
| Cost of goods sold | | 836,481 | 333,080 | | 1,169,561 |
| Selling, general and administrative expenses | 2 | 169,643 | 41,994 | | 211,639 |
| Depreciation and amortization | | 3,775 | 3,158 | | 6,933 |
| Results of affiliates operations | 39,240 | 35,407 | | (74,647) | |
| Interest (income) expense, net | (3,452) | 9,808 | 11,726 | | 18,082 |
| Other income | | (2,744) | | | (2,744) |
| Provision for income taxes | | 14,717 | 4,328 | | 19,045 |
| Net income | \$42,690 | \$ 39,240 | \$ 35,407 | \$ (74,647) | \$ 42,690 |

(1) The balances
reported for the

three months
ended
March 31, 2008
have been
revised as a
result of the
retrospective
application of
FSP ABP 14-1
on January 1,
2009 (see Note
3 Accounting
for Convertible
Debt
Instruments).

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

Three Months Ended March 31, 2009
(In thousands)

| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net cash provided by operating activities | \$ 7,369 | \$ 112,978 | \$ 14,247 | \$ | \$ 134,594 |
| Investing activities: | | | | | |
| Capital expenditures | | (2,663) | (193) | | (2,856) |
| Acquisition payments | | (74) | | | (74) |
| Other | | 82 | | | 82 |
| Net cash used by investing activities | | (2,655) | (193) | | (2,848) |
| Financing activities: | | | | | |
| Net repayments | (7,545) | (89,955) | (371) | | (97,871) |
| Equity transactions | 174 | | | | 174 |
| Other | | (12,631) | | | (12,631) |
| Net cash used by financing activities | (7,371) | (102,586) | (371) | | (110,328) |
| Effect of exchange rate changes on cash and cash equivalents | | | (2,621) | | (2,621) |
| Net change in cash and cash equivalents | (2) | 7,737 | 11,062 | | 18,797 |
| Cash and cash equivalents at the beginning of year | | 18,453 | 67,885 | | 86,338 |
| Cash and cash equivalents at the end of period | \$ (2) | \$ 26,190 | \$ 78,947 | \$ | \$ 105,135 |

Three Months Ended March 31, 2008⁽¹⁾
(In thousands)

| | WESCO International, Inc. | WESCO Distribution, Inc. | Non-Guarantor Subsidiaries | Consolidating and Eliminating Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| | \$(10,953) | \$ 78,649 | \$ 24,265 | \$ | \$ 91,961 |

| | | | | |
|--|----------|-----------|-----------|-----------|
| Net cash (used) provided by operating activities | | | | |
| Investing activities: | | | | |
| Capital expenditures | | (11,034) | (285) | (11,319) |
| Acquisition payments | | (96) | | (96) |
| Proceeds from sale of subsidiary | | 60,000 | | 60,000 |
| Other | | 13 | | 13 |
| Net cash provided (used) by investing activities | | 48,883 | (285) | 48,598 |
| Financing activities: | | | | |
| Net borrowings (repayments) | 32,088 | (111,383) | (338) | (79,633) |
| Equity transactions | (21,132) | | | (21,132) |
| Other | | (15,361) | | (15,361) |
| Net cash provided (used) by financing activities | 10,956 | (126,744) | (338) | (116,126) |
| Effect of exchange rate changes on cash and cash equivalents | | | (2,298) | (2,298) |
| Net change in cash and cash equivalents | 3 | 788 | 21,344 | 22,135 |
| Cash and cash equivalents at the beginning of year | (7) | 32,140 | 40,164 | 72,297 |
| Cash and cash equivalents at the end of period | \$ (4) | \$ 32,928 | \$ 61,508 | \$ 94,432 |

(1) The balances reported for net cash (used) provided by operating activities for the three months ended March 31, 2008 have been revised as a result of the retrospective application of FSP ABP 14-1 on January 1, 2009 (see Note 3 Accounting for Convertible Debt Instruments).

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SUBSEQUENT EVENT

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

Under the Receivables Facility, WESCO Distribution 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 Distribution has agreed to continue servicing the sold receivables for the third-party conduits and financial institutions at market rates; accordingly, no servicing asset or liability has been recorded.

As of March 31, 2009 and December 31, 2008, accounts receivable eligible for securitization totaled \$496.8 million and \$602.9 million, respectively. The consolidated balance sheets as of March 31, 2009 and December 31, 2008 reflect \$245.0 million and \$295.0 million, respectively, of account receivable balances legally sold to third parties, as well as borrowings for equal amounts. At March 31, 2009, the interest rate on borrowings under this facility was approximately 1.6%.

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 2008 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 approximately 400 full service branches and seven distribution centers located in the United States, Canada, Mexico, the United Kingdom, Nigeria, United Arab Emirates, Singapore, Australia and China. We serve approximately 115,000 customers worldwide, offering over 1,000,000 products from more than 23,000 suppliers. Our diverse customer base includes a wide variety of industrial companies; contractors for industrial, commercial and residential projects; utility companies, and commercial, institutional and governmental customers. Approximately 85% of our net sales are generated from operations in the United States, 11% from Canada and the remainder from other countries.

Our financial results for the first three months of 2009 reflect weak conditions in our markets served, along with unfavorable foreign currency exchange rates and the negative impact of lower commodity prices. Sales decreased \$285.6 million, or 19.5%, over the same period last year. Cost of goods sold as a percentage of net sales was 79.8% for the first three months of 2009 and 2008. Operating income decreased by \$33.5 million, or 43.5%, primarily from the decrease in sales resulting from the decline in end market activity. Net income for the three months ended March 31, 2009 and 2008 was \$23.3 million and \$42.7 million, respectively.

Cash Flow

We generated \$134.6 million in operating cash flow for the first three months of 2009. Included in this amount was net income of \$23.3 million and a decrease in trade and other receivables of \$113.9 million. Investing activities were primarily comprised of capital expenditures which totaled \$2.9 million for the first three months of 2009. Financing activities consisted of borrowings and repayments of \$71.0 million and \$118.5 million, respectively, related to our revolving credit facility, and net repayments of \$50.0 million related to our Receivables Facility, whereby we sell, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corp., a wholly owned SPE.

Financing Availability

As of March 31, 2009, we had \$300.9 million in total available borrowing capacity. The available borrowing capacity under our revolving credit facility was \$151.9 million, of which \$86.5 million is the U.S. sub-facility borrowing limit and \$65.4 million is the Canadian sub-facility borrowing limit. The revolving credit facility does not mature until November 1, 2013. The available borrowing capacity under the Receivables Facility, which was amended and restated on April 13, 2009, was \$149.0 million. The Receivables Facility matures on April 13, 2012. In addition, our 2025 Debentures and 2026 Debentures cannot be redeemed or repurchased until October 2010 and November 2011, respectively. We increased our cash by \$18.8 million to \$105.1 million, after taking into account \$98.6 million of net debt repayments and \$2.9 million of capital expenditures. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. For further discussion refer to Liquidity and Capital Resources.

Outlook

We believe that improvements made to our operations and capital structure and actions taken in 2008 and the first quarter of 2009, including the amendment and restatement of the accounts receivable securitization facility in April, have helped position the Company to operate effectively in the lower level of activity being experienced in our end markets. Current macroeconomic data and input from internal sales management, customers, and suppliers suggest activity levels in our major end markets will continue to be significantly weaker in 2009. Despite anticipated weakness, we believe that our opportunity pipeline remains strong. We believe that our strong market position, broad portfolio of products and services, and extensive information technology platform, combined with our continued focus on selling and marketing programs, margin improvement, and productivity initiatives, should provide us with a competitive advantage in the market.

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

Our critical accounting policies are described in the notes to our consolidated financial statements for the year ended December 31, 2008 contained in our Annual Report on Form 10-K. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been included in the notes to our Condensed Consolidated Financial Statements for the period ended March 31, 2009.

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

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

| | Three Months Ended | |
|--|---------------------------|---------------------------|
| | March 31, | |
| | 2009 | 2008⁽¹⁾ |
| Net sales | 100.0% | 100.0% |
| Cost of goods sold | 79.8 | 79.8 |
| Selling, general and administrative expenses | 15.9 | 14.4 |
| Depreciation and amortization | 0.6 | 0.5 |
| Income from operations | 3.7 | 5.3 |
| Interest expense | 1.0 | 1.2 |
| Other income | (0.1) | (0.1) |
| Income before income taxes | 2.8 | 4.2 |
| Provision for income taxes | 0.8 | 1.3 |
| Net income | 2.0% | 2.9% |

(1) As a result of the retrospective application of FSP ABP 14-1 on January 1, 2009, interest expense, income before income taxes, provision for income taxes and net income were revised for the three months ended March 31, 2008 (see Note 3 to the consolidated financial statements).

Net sales in the first quarter of 2009 totaled \$1,179.6 million versus \$1,465.2 million in the comparable period for 2008, a decrease of \$285.6 million, or 19.5%, over the same period last year. Sales were negatively impacted by weak

market conditions, unfavorable foreign currency exchange rates, lower commodity prices and one less workday in the first quarter 2009 compared to the same period in 2008.

Cost of goods sold for the first quarter of 2009 was \$941.4 million versus \$1,169.6 million for the comparable period in 2008, and cost of goods sold as a percentage of net sales was 79.8% in 2009 and 2008. The cost of goods sold percentage was equivalent to the first quarter of 2008 due to effective pricing and procurement initiatives which more than offset the decrease in commodity prices and an unfavorable sales mix.

Selling, general and administrative (SG&A) expenses in the first quarter of 2009 totaled \$187.5 million versus \$211.6 million in last year's comparable quarter. The decrease in SG&A expenses is due to aggressive cost reductions actions. As a percentage of net sales, SG&A expenses were 15.9% in the first quarter of 2009 compared to 14.4% in the first quarter of 2008, reflecting a decrease in sales volume.

SG&A payroll expenses for the first quarter of 2009 of \$131.6 million decreased by \$13.5 million compared to the same quarter in 2008. The decrease in payroll expenses was primarily due to a decrease in salaries and wages of \$6.2 million, a decrease in incentive costs of \$3.0 million, a decrease in benefit costs of \$1.9 million and a decrease in temporary labor costs of \$1.5 million. Other SG&A related payroll expenses decreased \$0.9 million.

The remaining SG&A expenses for the first quarter of 2009 of \$55.9 million decreased by approximately \$10.6 million compared to same quarter in 2008. Included in this period's SG&A expenses was a decrease in transportation costs of \$2.9 million due to the decrease in sales volume, a decrease in travel costs of \$1.9 million and a decrease in bad debt expense of \$1.6 million due to a specific customer default recognized in last year's comparable period. Other SG&A expenses decreased \$4.2 million.

Depreciation and amortization for the first quarter of 2009 was \$7.2 million versus \$6.9 million in last year's comparable quarter. The increase is due to the \$35.3 million of capital expenditures in the prior year.

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Interest expense totaled \$12.5 million for the first quarter of 2009 versus \$18.1 million in last year's comparable quarter, a decrease of 30.8%. Interest expense for the first quarter of 2009 was primarily impacted by the reduction in interest rates and the decrease in debt. On January 1, 2009, we retrospectively applied the provisions of FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1), for our 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures) and 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures). This change in accounting treatment results in an increase in non-cash interest reported in the financial statements, a decrease in long-term debt, an increase in equity and an increase in deferred income taxes. Interest expense for the 2025 Debentures and 2026 Debentures totaled \$6.1 million and \$5.9 million for the three months ended March 31, 2009 and 2008, respectively, of which \$3.8 million and \$3.6 million, respectively, was non-cash interest.

Other income totaled \$1.6 million for the first quarter of 2009 versus \$2.7 million in the comparable period for 2008. We account for our investment in the LADD joint venture on an equity basis, and earnings are reported as other income in the consolidated statement of income. The decrease in other income is primarily due to the decrease in the joint venture's income.

Income tax expense totaled \$9.4 million in the first quarter of 2009, and the effective tax rate was 28.7% compared to 30.8% in the same quarter in 2008. The decrease in the effective tax rate is primarily a result of a lower tax rate from foreign operations.

For the first quarter of 2009, net income decreased by \$19.4 million to \$23.3 million compared to \$42.7 million in the first quarter of 2008. Diluted earnings per share was \$0.55 for the first quarter of 2009 compared with \$0.97 per diluted share for the first quarter of 2008. The decrease in net income was primarily due to the decline in sales attributable to the weak market conditions.

Liquidity and Capital Resources

Total assets were \$2.6 billion at March 31, 2009, compared to \$2.7 billion at December 31, 2008. The \$147.2 million decrease in total assets was principally attributable to the decrease in accounts receivable and inventory of \$103.6 million and \$44.6 million, respectively. These reductions were due to the decrease in sales activity. Total liabilities at March 31, 2009 compared to December 31, 2008 decreased by \$167.8 million to \$1.8 billion. Contributing to the decrease in total liabilities was a decrease in short-term and long-term debt of \$94.2 million; a decrease in accounts payable of \$47.6 million due to reduced purchasing activity; a decrease in accrued payroll and benefit costs of \$16.1 million due to the payment of the 2008 management incentive compensation; and a decrease in bank overdrafts of \$11.9 million. Stockholders' equity increased 2.7% to \$775.7 million at March 31, 2009, compared with \$755.1 million at December 31, 2008, primarily as a result of net earnings of \$23.3 million and stock-based compensation expense of \$3.2 million. These increases were partially offset by foreign currency translation adjustments of \$6.0 million.

A possible indicator of impairment is the relationship of a company's market capitalization to its book value. As of March 31, 2009, our market capitalization exceeded our book value. The persistence or further acceleration of the recent downturn in the global economic conditions and turbulence in financial markets could have a further negative impact on our market capitalization and/or financial performance. Our recent large acquisitions are most sensitive to a decline in financial performance. Therefore, we cannot predict whether or not there will be certain events that could adversely affect the reported value of goodwill and trademarks, which totaled \$900.9 million and \$900.7 million at March 31, 2009 and December 31, 2008, respectively.

Our liquidity needs arise from working capital requirements, capital expenditures, acquisitions and debt service obligations. As of March 31, 2009, we had \$151.9 million in available borrowing capacity under our revolving credit facility, which combined with our \$149.0 million of available borrowing capacity under our Receivables Facility and our invested cash provides us with liquidity of \$364.8 million. We believe cash provided by operations and financing activities will be adequate to cover our current operational and business needs.

The worldwide financial turmoil has had significant impacts on global credit markets. We communicate on a regular basis with our lenders regarding our financial and working capital performance and liquidity position. We are in compliance with all covenants and restrictions as of March 31, 2009. On April 13, 2009, we entered into a \$400 million amended and restated receivables purchase agreement. As previously mentioned, the amended and

restated Receivables Facility is not subject to renewal until April 2012. In addition, in October 2008 Moody's Investor Services and Standard & Poor's affirmed our credit rating and stable outlook.

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

Table of Contents*Cash Flow*

Operating Activities. Cash provided by operating activities for the first three months of 2009 totaled \$134.6 million compared with \$92.0 million of cash generated for the first three months of 2008. Cash provided by operating activities in the first three months of 2009 included net income of \$23.3 million and adjustments to net income totaling \$18.5 million. The increased level of cash flow is primarily attributable to a decrease in trade and other receivables of \$113.9 million resulting from the decrease in sales and a decrease in inventory of \$42.9 million. Cash used by operating activities in the first three months of 2009 included: \$45.4 million for the decrease in accounts payable, resulting from the decrease in purchasing activity; and \$16.1 million for the decrease in accrued payroll and benefit costs, resulting from the payment of the 2008 management incentive compensation. In the first three months of 2008, primary sources of cash were net income of \$42.7 million and adjustments to net income totaling \$12.2 million; an inventory reduction of \$26.9 million; and an accounts payable increase of \$23.4 million, resulting from the increase in the cost of sales. Cash used by operating activities in the first three months of 2008 included \$16.9 million for the increase in trade and other receivables, resulting from the increase in sales; and \$14.5 million for the decrease in accrued payroll and benefit costs, resulting from the payment of the 2007 management incentive compensation.

Investing Activities. Net cash used by investing activities for the first three months of 2009 was \$2.8 million, compared with \$48.6 million of net cash provided during the first three months of 2008. Included in 2008 were proceeds of \$60.0 million from the partial divestiture of the LADD operations. Capital expenditures were \$2.9 million and \$11.3 million in the first three months of 2009 and 2008, respectively. The decrease in capital expenditures in 2009 is due to cash management initiatives.

Financing Activities. Net cash used by financing activities for the first three months of 2009 and 2008 was \$110.3 million and \$116.1 million, respectively. During the first three months of 2009, borrowings and repayments of long-term debt of \$71.0 million and \$118.5 million, respectively, were made to our revolving credit facility. Borrowings and repayments of \$55.0 million and \$105.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$0.4 million to our mortgage financing facility. During the first three months of 2008, borrowings and repayments of long-term debt of \$241.5 million and \$323.8 million, respectively, were made to our revolving credit facility. Borrowings and repayments of \$83.0 million and \$80.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$0.3 million to our mortgage financing facility. In addition, during the first three months of 2008, we purchased shares of our common stock under our share repurchase plan for approximately \$24.9 million. The exercise of stock-based compensation arrangements resulted in proceeds of \$0.1 million and \$2.2 million during the first three months of 2009 and 2008, respectively.

Contractual Cash Obligations and Other Commercial Commitments

There were no material changes in our contractual obligations and other commercial commitments that would require an update to the disclosure provided in our 2008 Annual Report on Form 10-K other than the subsequent events disclosure in Note 13 to the condensed consolidated financial statements. Management believes that cash generated from operations, together with amounts available under our revolving credit facility and the Receivables Facility, will be sufficient to meet our working capital, capital expenditures and other cash requirements for the foreseeable future. There can be no assurances, however, that this will be or will continue to be the case.

Inflation

The rate of inflation affects different commodities, the cost of products purchased and ultimately the pricing of our different products and product classes to our customers. As a result of the worldwide financial turmoil, we experienced price deflation during the three months ended March 31, 2009. On an overall basis, our pricing related to deflation comprised an estimated \$25.0 million of our sales decline.

Seasonality

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

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

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value but does not expand the use of fair value to new accounting transactions and does not apply to pronouncements that address share-based payment transactions. On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of SFAS No. 157. The FSP amends SFAS 157 to delay the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually) to fiscal years beginning after November 15, 2008. Except for the delay for nonfinancial assets and liabilities, SFAS 157 was effective for fiscal years beginning after November 15, 2007. Consistent with its requirements, we adopted SFAS 157 for our financial assets and liabilities on January 1, 2008. Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, bank overdrafts and debt. We believe that the recorded values of our financial instruments, except for long-term debt, approximate fair value because of their nature and respective duration. The partial adoption of SFAS 157 did not impact our financial position, results of operations, or cash flows. On January 1, 2009, we adopted SFAS 157 for our nonfinancial assets and liabilities which include those measured at fair value in goodwill and indefinite lived intangible asset impairment testing, and assets acquired and liabilities assumed in a business combination. The adoption of SFAS 157 for nonfinancial assets and liabilities did not impact our financial position, results of operations or cash flows. However, in the event that we acquire a new business or have an impairment issue related to goodwill or indefinite lived intangible assets, the determination of fair value of the assets and liabilities will be subject to SFAS 157.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R) which establishes additional principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date fair value. SFAS 141R is designed to improve the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is in or after the beginning of the first annual reporting period beginning after December 15, 2008. As there were no acquisitions executed in the first quarter of 2009, the adoption of SFAS 141R did not impact our financial position, results of operations or cash flows.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3) which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), and requires additional disclosure. The objective of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other generally accepted accounting principles. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and shall be applied prospectively to intangible assets acquired after the effective date. The adoption of FSP FAS 142-3 did not impact 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, global and national economic and market factors and other risks that are described in our Annual Report on Form 10-K for our fiscal year ended December 31, 2008, or other documents subsequently filed with the Securities and Exchange Commission. We have undertaken no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 3. Quantitative and Qualitative Disclosures about Market Risks

There have not been any material changes to our exposures to market risk during the quarter ended March 31, 2009 that would require an update to the disclosures provided in our 2008 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 first quarter of 2009, 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.

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Part II Other Information

Item 1. Legal Proceedings

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

As previously reported in our Annual Report on Form 10-K, we are a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that we sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of \$52 million. We have denied any liability, continue to believe that we have meritorious defenses and intend to vigorously defend ourselves against these allegations. Accordingly, no liability is recorded for this matter as of March 31, 2009.

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 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: May 6, 2009

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

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