

WESCO INTERNATIONAL INC  
Form 10-Q  
August 03, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2011

Or

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

FOR THE TRANSITION PERIOD from            to

Commission file number 001-14989

**WESCO International, Inc.**

(Exact name of registrant as specified in its charter)

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|  |   |
|--|---|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization) | <b>25-1723342</b><br>(IRS Employer<br>Identification No.)                     |
| <b>225 West Station Square Drive</b><br><br><b>Suite 700</b>                         |   |
| <b>Pittsburgh, Pennsylvania 15219</b><br>(Address of principal executive offices)    | <b>(412) 454-2200</b><br>(Registrant's telephone number, including area code) |
| <b>N/A</b>   |   |
| (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 <input checked="" type="checkbox"/>                                  | Accelerated filer <input type="checkbox"/>         |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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 July 28, 2011, WESCO International, Inc. had 43,256,867 shares of common stock outstanding.

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**WESCO INTERNATIONAL, INC. AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

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

(unaudited)

| <i>Amounts in thousands, except share data</i>  | <b>June 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---|--------------------------|------------------------------|
| <b>Assets</b>   |                          |                              |
| <b>Current Assets:</b>  |                          |                              |
| Cash and cash equivalents   | \$ 78,615                | \$ 53,577                    |
| Trade accounts receivable, net of allowance for doubtful accounts of \$21,090 and \$18,562 in 2011 and 2010, respectively   | 920,785                  | 792,681                      |
| Other accounts receivable   | 24,460                   | 37,223                       |
| Inventories, net  | 634,148                  | 588,848                      |
| Current deferred income taxes   | 3,158                    | 3,046                        |
| Income taxes receivable   | 15,856                   | 18,146                       |
| Prepaid expenses and other current assets   | 27,737                   | 20,165                       |
| Total current assets  | 1,704,759                | 1,513,686                    |
| Property, buildings and equipment, net  | 126,288                  | 118,045                      |
| Intangible assets, net  | 153,452                  | 160,307                      |
| Goodwill  | 992,637                  | 985,714                      |
| Deferred income taxes   | 36,803                   | 35,887                       |
| Other assets  | 12,018                   | 13,135                       |
| Total assets  | \$ 3,025,957             | \$ 2,826,774                 |
| <b>Liabilities and Stockholders Equity</b>  |                          |                              |
| <b>Current Liabilities:</b>   |                          |                              |
| Accounts payable  | \$ 624,233               | \$ 537,505                   |
| Accrued payroll and benefit costs   | 49,864                   | 66,931                       |
| Current portion of long-term debt   | 4,775                    | 3,988                        |
| Bank overdrafts   | 27,917                   | 27,590                       |
| Current deferred income taxes   | 4,608                    | 4,593                        |
| Other current liabilities   | 65,219                   | 67,626                       |
| Total current liabilities   | 776,616                  | 708,233                      |
| Long-term debt, net of discount of \$177,216 and \$178,427 in 2011 and 2010, respectively   | 753,590                  | 725,893                      |
| Deferred income taxes   | 220,923                  | 210,876                      |
| Other noncurrent liabilities  | 21,521                   | 33,178                       |
| Total liabilities   | \$ 1,772,650             | \$ 1,678,180                 |
| Commitments and contingencies (Note 6)  |                          |                              |
| <b>Stockholders Equity:</b>   |                          |                              |
| Preferred stock, \$.01 par value; 20,000,000 shares authorized, no shares issued or outstanding   |                          |                              |
| Common stock, \$.01 par value; 210,000,000 shares authorized, 56,842,977 and 56,576,250 shares issued and 43,281,169 and 43,009,941 shares outstanding in 2011 and 2010, respectively | 569                      | 566                          |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2011 and 2010, respectively                  | 43                       | 43                           |
| Additional capital  | 1,028,750                | 1,018,683                    |
| Retained earnings   | 783,050                  | 697,676                      |

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|  |                  |                  |
|--|------------------|------------------|
| Treasury stock, at cost; 17,901,239 and 17,905,740 shares in 2011 and 2010, respectively | (591,464)        | (591,007)        |
| Accumulated other comprehensive income   | 32,359           | 22,633           |
| <b>Total stockholders' equity</b>  | <b>1,253,307</b> | <b>1,148,594</b> |
| Total liabilities and stockholders' equity   | \$ 3,025,957     | \$ 2,826,774     |

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

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

(unaudited)

|  | Three Months Ended |              | Six Months Ended |              |
|--|--------------------|--------------|------------------|--------------|
|  | June 30,           |              | June 30,         |              |
| <i>Amounts in thousands, except per share data</i>                 | 2011               | 2010         | 2011             | 2010         |
| Net sales  | \$ 1,524,515       | \$ 1,259,121 | \$ 2,955,820     | \$ 2,407,720 |
| Cost of goods sold (excluding depreciation and amortization below) | 1,217,666          | 1,016,169    | 2,362,921        | 1,937,352    |
| Selling, general and administrative expenses                       | 214,212            | 185,977      | 427,971          | 369,016      |
| Depreciation and amortization                                      | 7,641              | 5,620        | 15,187           | 11,721       |
| Income from operations   | 84,996             | 51,355       | 149,741          | 89,631       |
| Interest expense, net  | 13,931             | 14,400       | 26,572           | 27,930       |
| Other income   |                    | (1,778)      |                  | (4,284)      |
| Income before income taxes   | 71,065             | 38,733       | 123,169          | 65,985       |
| Provision for income taxes   | 20,858             | 10,940       | 35,657           | 18,992       |
| Net income   | \$ 50,207          | \$ 27,793    | \$ 87,512        | \$ 46,993    |
| Earnings per share:  |                    |              |                  |              |
| Basic  | \$ 1.16            | \$ 0.65      | \$ 2.03          | \$ 1.11      |
| Diluted  | \$ 1.00            | \$ 0.60      | \$ 1.74          | \$ 1.04      |

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

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

(unaudited)

| <i>Amounts in thousands</i>   | Six Months Ended |                  |
|---|------------------|------------------|
|   | 2011             | June 30,<br>2010 |
| <b>Operating Activities:</b>  |                  |                  |
| Net income  | \$ 87,512        | \$ 46,993        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |                  |
| Depreciation and amortization   | 15,187           | 11,721           |
| Amortization of debt issuance costs   | 1,322            | 1,303            |
| Amortization of debt discount   | 1,211            | 2,558            |
| Deferred income taxes   | 10,408           | (3,789)          |
| Stock-based compensation expense  | 9,507            | 7,117            |
| Gain on sale of property, buildings and equipment                                 | 135              | 62               |
| Asset impairment charge   |                  | 3,793            |
| Equity income, net of distributions of \$1,864                                    |                  | (2,421)          |
| Excess tax benefit from stock-based compensation                                  | (3,379)          | (629)            |
| Interest related to uncertain tax positions                                       | 1,258            | (310)            |
| Changes in assets and liabilities   |                  |                  |
| Trade and other receivables, net  | (106,478)        | (80,204)         |
| Inventories, net  | (40,809)         | (21,844)         |
| Prepaid expenses and other current assets   | 2,112            | 3,217            |
| Accounts payable  | 80,863           | 85,756           |
| Accrued payroll and benefit costs   | (17,301)         | 7,491            |
| Other current and noncurrent liabilities  | (19,031)         | 7,942            |
| <b>Net cash provided by operating activities</b>                                  | <b>22,517</b>    | <b>68,756</b>    |
| <b>Investing Activities:</b>  |                  |                  |
| Capital expenditures  | (15,857)         | (6,022)          |
| Acquisition payments  | (8,308)          | (14,296)         |
| Proceeds from sale of subsidiary  |                  | 40,000           |
| Equity distribution   |                  | 4,054            |
| Collection of note receivable   |                  | 15,000           |
| Proceeds from sale of assets  | 59               | 178              |
| <b>Net cash (used) provided by investing activities</b>                           | <b>(24,106)</b>  | <b>38,914</b>    |
| <b>Financing Activities:</b>  |                  |                  |
| Proceeds from issuance of long-term debt  | 327,524          | 310,452          |
| Repayments of long-term debt  | (299,661)        | (424,404)        |
| Debt issuance costs   | (229)            | (596)            |
| Proceeds from the exercise of stock options                                       | 199              | 613              |
| Excess tax benefit from stock-based compensation                                  | 3,379            | 629              |
| Purchases of common stock   | (5,975)          | (111)            |
| Increase (decrease) in bank overdrafts  | 327              | (9,660)          |
| Payments on capital lease obligations   | (816)            | (830)            |
| <b>Net cash provided (used) by financing activities</b>                           | <b>24,748</b>    | <b>(123,907)</b> |

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|  |           |           |
|--|-----------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | 1,879     | (288)     |
| Net change in cash and cash equivalents                      | 25,038    | (16,525)  |
| Cash and cash equivalents at the beginning of period         | 53,577    | 112,329   |
| Cash and cash equivalents at the end of period               | \$ 78,615 | \$ 95,804 |

**Supplemental disclosures:**

Non-cash investing and financing activities:

|   |        |        |
|---|--------|--------|
| Property, buildings and equipment acquired through capital leases | \$ 180 | \$ 164 |
| Issuance of treasury stock  | 960    |        |

*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, industrial and communications maintenance, repair and operating (MRO) and original equipment manufacturers (OEM) products, construction materials, and advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 100,000 customers globally, through approximately 400 full service branches and seven distribution centers located primarily in the United States, Canada, Mexico, United Kingdom, Singapore, China, Australia and the United Arab Emirates and a commercial presence in six other countries.

**2. ACCOUNTING POLICIES**

*Basis of Presentation*

The unaudited condensed consolidated financial statements of WESCO have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the SEC). The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in WESCO's 2010 Annual Report on Form 10-K filed with the SEC. The December 31, 2010 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States.

The unaudited condensed consolidated balance sheet as of June 30, 2011, the unaudited condensed consolidated statements of income for the six months ended June 30, 2011 and 2010, respectively, and the unaudited condensed consolidated statements of cash flows for the six months ended June 30, 2011 and 2010, respectively, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair statement of the results of the interim periods. All adjustments reflected in the unaudited condensed consolidated financial statements are of a normal recurring nature unless indicated. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

*Fair Value of Financial Instruments*

With the exception of fixed rate long-term debt, the carrying amounts of WESCO's financial assets and liabilities approximate their fair values. At June 30, 2011, the par value of WESCO's fixed rate long-term debt was \$495.2 million and the fair value was approximately \$871.4 million. The fair value of WESCO's long-term debt was estimated based on market price quotes and market comparisons available for instruments with similar terms and maturities.

*Recent Accounting Pronouncements*

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

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

**Table of Contents****3. STOCK-BASED COMPENSATION**

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

During the three and six month periods ended June 30, 2011 and 2010, WESCO granted the following stock-settled stock appreciation rights and restricted stock units at the following weighted average assumptions:

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2011                        | 2010      | 2011                      | 2010      |
| Stock-settled appreciations rights granted | 3,650                       | 13,250    | 384,517                   | 24,000    |
| Restricted stock units                     |                             |           | 53,919                    |           |
| Risk free interest rate                    | 1.8%                        | 2.2%      | 2.4%                      | 2.2%      |
| Expected life                              | 5.0 years                   | 5.0 years | 5.0 years                 | 4.8 years |
| Expected volatility                        | 48%                         | 49%       | 49%                       | 49%       |

For the three and six months ended June 30, 2011, the weighted average fair value per stock-settled appreciation right granted was \$23.86 and \$26.87, respectively. For the three and six months ended June 30, 2010, the weighted average fair value per stock-settled appreciation right granted was \$17.07 and \$15.08, respectively. For the six months ended June 30, 2011, the weighted average fair value per restricted stock unit granted was \$60.05.

WESCO recognized \$4.5 million and \$3.6 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended June 30, 2011 and 2010, respectively. WESCO recognized \$9.5 million and \$7.1 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the six months ended June 30, 2011 and 2010, respectively. As of June 30, 2011, there was \$22.6 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$6.0 million is expected to be recognized over the remainder of 2011, \$10.0 million in 2012, \$6.1 million in 2013 and \$0.5 million in 2014.

During the six months ended June 30, 2011 and 2010, the total intrinsic value of awards exercised was \$19.1 million and \$1.7 million, respectively, and the total amount of cash received from the exercise of options was \$0.2 million and \$0.6 million, respectively. The tax benefit associated with the exercise of awards for the six months ended June 30, 2011 and 2010 totaled \$3.4 million and \$0.6 million, respectively, and was recorded to additional capital.

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The following table sets forth a summary of stock options and stock-settled stock appreciation rights and related information for the six months ended June 30, 2011:

|                                  | Awards    | Weighted<br>Average<br>Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual<br>Term<br>(In Years) | Aggregate<br>Intrinsic<br>Value<br>(In Thousands) |
|----------------------------------|-----------|--|--|---|
| Outstanding at December 31, 2010 | 4,498,303 | \$ 36.38                                 |  |   |
| Granted                          | 384,517   | 60.00                                    |  |   |
| Exercised                        | (234,800) | 29.96                                    |  |   |
| Forfeited                        | (76,708)  | 46.19                                    |  |   |
| Outstanding at June 30, 2011     | 4,571,312 | 38.53                                    | 6.1  | 90,948  |
| Exercisable at June 30, 2011     | 2,828,159 | 39.09                                    | 4.5  | 56,256  |

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

|                               | Awards    | Weighted<br>Average<br>Fair<br>Value |
|-------------------------------|-----------|--------------------------------------|
| Unvested at December 31, 2010 | 392,493   | \$ 28.36                             |
| Granted                       | 53,919    | 60.05                                |
| Vested                        | (236,913) | 27.93                                |
| Forfeited                     | (4,680)   | 30.84                                |
| Unvested at June 30, 2011     | 204,819   | \$ 37.16                             |

**4. EARNINGS PER SHARE**

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

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

|  | <b>Three Months Ended</b> |                          |
|--|---------------------------|--------------------------|
|  | <b>2011</b>               | <b>June 30,<br/>2010</b> |
| <i>Amounts in thousands, except share and per share data</i>   |                           |                          |
| Net income   | \$ 50,207                 | \$ 27,793                |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 43,189,946                | 42,477,630               |
| Common shares issuable upon exercise of dilutive stock options   | 1,327,307                 | 808,023                  |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation)            | 5,804,381                 | 2,756,454                |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 50,321,634                | 46,042,107               |
| Earnings per share:  |                           |                          |
| Basic  | \$ 1.16                   | \$ 0.65                  |
| Diluted  | \$ 1.00                   | \$ 0.60                  |
|  | <b>Six Months Ended</b>   |                          |
|  | <b>2011</b>               | <b>June 30,<br/>2010</b> |
| <i>Amounts in thousands, except share and per share data</i>   |                           |                          |
| Net income reported  | \$ 87,512                 | \$ 46,993                |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 43,125,505                | 42,460,469               |
| Common shares issuable upon exercise of dilutive stock options   | 1,368,128                 | 694,861                  |
| Common shares issuable from contingently convertible debentures (see note below for basis of calculation)            | 5,880,022                 | 1,843,267                |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 50,373,655                | 44,998,597               |
| Earnings per share:  |                           |                          |
| Basic  | \$ 2.03                   | \$ 1.11                  |
| Diluted  | \$ 1.74                   | \$ 1.04                  |

For the three and six months ended June 30, 2011 and 2010, the computation of diluted earnings per share excluded 1.2 million and 1.8 million, respectively, of stock-settled stock appreciation rights at weighted average exercise prices of \$63 per share and \$52 per share, respectively. These amounts were excluded because their effect would have been antidilutive.

Because of WESCO's obligation to settle the par value of the 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures), the 6.0% Convertible Senior Debentures due 2029 (the 2029 Debentures) and the previously outstanding 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures) and together with the 2026 Debentures and 2029 Debentures, the Debentures) in cash upon conversion, WESCO is not required to include any shares underlying the Debentures in its diluted weighted average shares outstanding until the average stock price per share for the period exceeds the conversion price of the respective Debentures. At such time, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) would be included, which is based upon the amount by which the average stock price exceeds the conversion price. The conversion prices of the 2029 Debentures and 2026 Debentures are \$28.87 and \$88.15, respectively. Share dilution is limited to a maximum of 11,951,939 shares for the 2029 Debentures and 2,507 shares for the 2026 Debentures.

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For the three and six months ended June 30, 2011, the effect of the Debentures on diluted earnings per share was a decrease of \$0.13 and \$0.23, respectively. For the three and six months ended June 30, 2010, the effect of the Debentures on diluted earnings per share was a decrease of \$0.04.

**Table of Contents****5. 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 six months ended June 30, 2011 and 2010, WESCO incurred charges of \$14.8 million and \$11.0 million, respectively, for all such plans. Contributions are made in cash to all employee retirement savings plan accounts, except for the deferred compensation plan. Employees have the option to transfer balances allocated to their accounts into any of the available investment options, including WESCO common stock.

**6. 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 approximately \$50 million. The discovery process is on-going in this matter. WESCO has denied any liability, believes that it has meritorious defenses and intends to vigorously defend itself against these allegations. Accordingly, no liability is recorded for this matter as of June 30, 2011.

**7. COMPREHENSIVE INCOME**

The following tables set forth comprehensive income and its components:

| <i>Amounts in thousands</i>             | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>June 30,</b>           |                  |
|   | <b>2011</b>               | <b>2010</b>      |
| Net income                              | \$ 50,207                 | \$ 27,793        |
| Foreign currency translation adjustment | 1,742                     | (7,578)          |
| <b>Comprehensive income</b>             | <b>\$ 51,949</b>          | <b>\$ 20,215</b> |

| <i>Amounts in thousands</i>             | <b>Six Months Ended</b> |                  |
|---|-------------------------|------------------|
|   | <b>June 30,</b>         |                  |
|   | <b>2011</b>             | <b>2010</b>      |
| Net income                              | \$ 87,512               | \$ 46,993        |
| Foreign currency translation adjustment | 9,726                   | (174)            |
| <b>Comprehensive income</b>             | <b>\$ 97,238</b>        | <b>\$ 46,819</b> |

**8. INCOME TAXES**

The effective tax rate for the three months ended June 30, 2011 and 2010 was 29.4% and 28.2%, respectively, and the effective tax rate for the six months ended June 30, 2011 and 2010 was 29.0% and 28.8%, respectively. WESCO's three and six 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 six months ended June 30, 2011 and 2010 reflects discrete adjustments totaling \$2.3 million and \$1.2 million, respectively, primarily related to changes in uncertain tax positions.

The total amount of net unrecognized tax benefits was \$0.8 million and \$3.4 million as of June 30, 2011 and December 31, 2010, respectively. If these tax benefits were recognized in the consolidated financial statements, the portion of these amounts that would affect WESCO's effective tax rate would be \$0.8 million and \$1.9 million, respectively. During the next twelve months, WESCO anticipates an immaterial change in the net unrecognized tax benefits.

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WESCO records interest related to uncertain tax positions as a part of interest expense in the consolidated statement of income. Penalties are recognized as part of income tax expense. During the six months ended June 30, 2011 and 2010, WESCO recognized interest expense of \$1.3 million and \$0.3 million, respectively. As of June 30, 2011 and December 31, 2010, WESCO had an accrued liability for interest related to uncertain tax positions of \$10.7 million and \$9.5 million, respectively. There were no material penalties recorded during the three or six months ended June 30, 2011 or 2010.

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**9. OTHER FINANCIAL INFORMATION**

WESCO Distribution, Inc. ( WESCO Distribution ), a 100% owned subsidiary of WESCO International, Inc. ( WESCO International ), has outstanding \$150.0 million in aggregate principal amount of 7.50% Senior Subordinated Notes due 2017 (the 2017 Notes ), and WESCO International has outstanding \$0.2 million in aggregate principal amount of 2026 Debentures and \$345.0 million in aggregate principal amount of 2029 Debentures. The 2017 Notes are fully and unconditionally guaranteed by WESCO International on a subordinated basis to all existing and future senior indebtedness of WESCO International. The 2026 Debentures and 2029 Debentures are fully and unconditionally guaranteed by WESCO Distribution on a senior subordinated basis to all existing and future senior indebtedness of WESCO Distribution.

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



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

(unaudited)

|   | <b>June 30, 2011<br/>(In thousands)</b> |                                |                               |  |                     |
|---|---|--------------------------------|-------------------------------|--|---------------------|
|   | WESCO<br>International,<br>Inc.         | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated        |
| Cash and cash equivalents                             | \$ 6                                    | \$ 24,892                      | \$ 53,717                     | \$   | \$ 78,615           |
| Trade accounts receivable, net                        |   |                                | 920,785                       |  | 920,785             |
| Inventories, net                                      |   | 336,640                        | 297,508                       |  | 634,148             |
| Other current assets                                  | (23,982)                                | 36,383                         | 58,810                        |  | 71,211              |
| <b>Total current assets</b>                           | <b>(23,976)</b>                         | <b>397,915</b>                 | <b>1,330,820</b>              |  | <b>1,704,759</b>    |
| Intercompany receivables, net                         |   |                                | 1,834,550                     | (1,834,550)                                    |                     |
| Property, buildings and equipment, net                |   | 48,331                         | 77,957                        |  | 126,288             |
| Intangible assets, net                                |   | 7,399                          | 146,053                       |  | 153,452             |
| Goodwill and other intangibles, net                   |   | 246,267                        | 746,370                       |  | 992,637             |
| Investments in affiliates and other noncurrent assets | 2,111,566                               | 3,363,627                      | 15,992                        | (5,442,364)                                    | 48,821              |
| <b>Total assets</b>                                   | <b>\$ 2,087,590</b>                     | <b>\$ 4,063,539</b>            | <b>\$ 4,151,742</b>           | <b>\$ (7,276,914)</b>                          | <b>\$ 3,025,957</b> |
| Accounts payable                                      | \$                                      | \$ 408,198                     | \$ 216,035                    | \$   | \$ 624,233          |
| Other current liabilities                             | 8,015                                   | 10,816                         | 133,552                       |  | 152,383             |
| <b>Total current liabilities</b>                      | <b>8,015</b>                            | <b>419,014</b>                 | <b>349,587</b>                |  | <b>776,616</b>      |
| Intercompany payables, net                            | 630,347                                 | 1,204,203                      |                               | (1,834,550)                                    |                     |
| Long-term debt  | 167,783                                 | 169,124                        | 416,683                       |  | 753,590             |
| Other noncurrent liabilities                          | 28,138                                  | 164,673                        | 49,633                        |  | 242,444             |
| Stockholders' equity                                  | 1,253,307                               | 2,106,525                      | 3,335,839                     | (5,442,364)                                    | 1,253,307           |
| <b>Total liabilities and stockholders' equity</b>     | <b>\$ 2,087,590</b>                     | <b>\$ 4,063,539</b>            | <b>\$ 4,151,742</b>           | <b>\$ (7,276,914)</b>                          | <b>\$ 3,025,957</b> |

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

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

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

(unaudited)

|  | <b>Three Months Ended June 30, 2011</b>  |   |                                       |  |                     |
|--|--|---|---------------------------------------|--|---------------------|
|  | <b>(In thousands)</b>                    |   |                                       |  |                     |
|  | <b>WESCO<br/>International,<br/>Inc.</b> | <b>WESCO<br/>Distribution,<br/>Inc.</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>and<br/>Eliminating<br/>Entries</b> | <b>Consolidated</b> |
| Net Sales                                    | \$                                       | \$ 799,949                              | \$ 748,143                            | \$ (23,577)  | \$ 1,524,515        |
| Cost of goods sold                           |  | 641,159                                 | 600,084                               | (23,577)   | 1,217,666           |
| Selling, general and administrative expenses | 5  | 132,901                                 | 81,306                                |  | 214,212             |
| Depreciation and amortization                |  | 2,774                                   | 4,867                                 |  | 7,641               |
| Results of affiliates operations             | 56,424                                   | 54,322                                  |                                       | (110,746)  |                     |
| Interest expense, net                        | 6,212                                    | 3,557                                   | 4,162                                 |  | 13,931              |
| Provision for income taxes                   |  | 17,456                                  | 3,402                                 |  | 20,858              |
| <br>   |  |   |                                       |  |                     |
| Net income                                   | \$ 50,207                                | \$ 56,424                               | \$ 54,322                             | \$ (110,746)   | \$ 50,207           |

|  | <b>Three Months Ended June 30, 2010</b>  |   |                                       |  |                     |
|--|--|---|---------------------------------------|--|---------------------|
|  | <b>(In thousands)</b>                    |   |                                       |  |                     |
|  | <b>WESCO<br/>International,<br/>Inc.</b> | <b>WESCO<br/>Distribution,<br/>Inc.</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Consolidating<br/>and<br/>Eliminating<br/>Entries</b> | <b>Consolidated</b> |
| Net Sales                                    | \$                                       | \$ 701,505                              | \$ 576,377                            | \$ (18,761)  | \$ 1,259,121        |
| Cost of goods sold                           |  | 565,868                                 | 469,062                               | (18,761)   | 1,016,169           |
| Selling, general and administrative expenses | 34                                       | 124,718                                 | 61,225                                |  | 185,977             |
| Depreciation and amortization                |  | 2,614                                   | 3,006                                 |  | 5,620               |
| Results of affiliates operations             | 35,085                                   | 34,916                                  |                                       | (70,001)   |                     |
| Interest expense, net                        | 7,258                                    | 3,261                                   | 3,881                                 |  | 14,400              |
| Other income                                 |  | (1,778)                                 |                                       |  | (1,778)             |
| Provision for income taxes                   |  | 6,653                                   | 4,287                                 |  | 10,940              |
| <br>   |  |   |                                       |  |                     |
| Net income                                   | \$ 27,793                                | \$ 35,085                               | \$ 34,916                             | \$ (70,001)  | \$ 27,793           |

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

(unaudited)

|  | <b>Six Months Ended June 30, 2011</b> |                                |                               |  |              |
|--|---------------------------------------|--------------------------------|-------------------------------|--|--------------|
|  | <b>(In thousands)</b>                 |                                |                               |  |              |
|  | WESCO<br>International,<br>Inc.       | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Net Sales                                    | \$                                    | \$ 1,539,223                   | \$ 1,458,708                  | \$ (42,111)                                    | \$ 2,955,820 |
| Cost of goods sold                           |                                       | 1,233,005                      | 1,172,027                     | (42,111)                                       | 2,362,921    |
| Selling, general and administrative expenses | 43                                    | 269,441                        | 158,487                       |  | 427,971      |
| Depreciation and amortization                |                                       | 5,449                          | 9,738                         |  | 15,187       |
| Results of affiliates operations             | 99,621                                | 102,345                        |                               | (201,966)                                      |              |
| Interest expense, net                        | 12,066                                | 7,265                          | 7,241                         |  | 26,572       |
| Provision for income taxes                   |                                       | 26,787                         | 8,870                         |  | 35,657       |
| <br>   |                                       |                                |                               |  |              |
| Net income                                   | \$ 87,512                             | \$ 99,621                      | \$ 102,345                    | \$ (201,966)                                   | \$ 87,512    |

|  | <b>Six Months Ended June 30, 2010</b> |                                |                               |  |              |
|--|---------------------------------------|--------------------------------|-------------------------------|--|--------------|
|  | <b>(In thousands)</b>                 |                                |                               |  |              |
|  | WESCO<br>International,<br>Inc.       | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Net Sales                                    | \$                                    | \$ 1,360,451                   | \$ 1,079,748                  | \$ (32,479)                                    | \$ 2,407,720 |
| Cost of goods sold                           |                                       | 1,093,561                      | 876,270                       | (32,479)                                       | 1,937,352    |
| Selling, general and administrative expenses | 122                                   | 253,975                        | 114,919                       |  | 369,016      |
| Depreciation and amortization                |                                       | 6,110                          | 5,611                         |  | 11,721       |
| Results of affiliates operations             | 61,641                                | 69,744                         |                               | (131,385)                                      |              |
| Interest expense, net                        | 14,526                                | 7,006                          | 6,398                         |  | 27,930       |
| Other income                                 |                                       | (4,284)                        |                               |  | (4,284)      |
| Provision for income taxes                   |                                       | 12,186                         | 6,806                         |  | 18,992       |
| <br>   |                                       |                                |                               |  |              |
| Net income                                   | \$ 46,993                             | \$ 61,641                      | \$ 69,744                     | \$ (131,385)                                   | \$ 46,993    |

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

(unaudited)

|  | <b>Six Months Ended June 30, 2011</b> |                                |                               |   |              |
|--|---------------------------------------|--------------------------------|-------------------------------|---|--------------|
|  | <b>(In thousands)</b>                 |                                |                               |   |              |
|  | WESCO<br>International,<br>Inc.       | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and Eliminating<br>Entries | Consolidated |
| Net cash provided (used) by operating activities             | \$ 18,661                             | \$ (28,129)                    | \$ 31,985                     | \$  | \$ 22,517    |
| Investing activities:  |                                       |                                |                               |   |              |
| Capital expenditures   |                                       | (14,476)                       | (1,381)                       |   | (15,857)     |
| Acquisition payments   |                                       | (8,308)                        |                               |   | (8,308)      |
| Other  |                                       | 59                             |                               |   | 59           |
| Net cash used by investing activities                        |                                       | (22,725)                       | (1,381)                       |   | (24,106)     |
| Financing activities:  |                                       |                                |                               |   |              |
| Net repayments   | (16,259)                              | 43,306                         |                               |   | 27,047       |
| Equity transactions  | (2,397)                               |                                |                               |   | (2,397)      |
| Other  |                                       | 98                             |                               |   | 98           |
| Net cash (used) provided by financing activities             | (18,656)                              | 43,404                         |                               |   | 24,748       |
| Effect of exchange rate changes on cash and cash equivalents |                                       |                                | 1,879                         |   | 1,879        |
| Net change in cash and cash equivalents                      | 5                                     | (7,450)                        | 32,483                        |   | 25,038       |
| Cash and cash equivalents at the beginning of year           | 1                                     | 32,342                         | 21,234                        |   | 53,577       |
| Cash and cash equivalents at the end of period               | \$ 6                                  | \$ 24,892                      | \$ 53,717                     | \$  | \$ 78,615    |

|  | <b>Six Months Ended June 30, 2010</b> |                                |                               |   |              |
|--|---------------------------------------|--------------------------------|-------------------------------|---|--------------|
|  | <b>(In thousands)</b>                 |                                |                               |   |              |
|  | WESCO<br>International,<br>Inc.       | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and Eliminating<br>Entries | Consolidated |
| Net cash provided (used) by operating activities | \$ 7,263                              | \$ 83,034                      | \$ (21,541)                   | \$  | \$ 68,756    |
| Investing activities:                            |                                       |                                |                               |   |              |
| Capital expenditures                             |                                       | (5,784)                        | (238)                         |   | (6,022)      |
| Acquisition payments                             |                                       | (14,296)                       |                               |   | (14,296)     |
| Proceeds from sale of subsidiary                 |                                       | 40,000                         |                               |   | 40,000       |
| Collection of note receivable                    |                                       | 15,000                         |                               |   | 15,000       |
| Other  |                                       | 4,232                          |                               |   | 4,232        |
| Net cash provided (used) by investing activities |                                       | 39,152                         | (238)                         |   | 38,914       |
| Financing activities:                            |                                       |                                |                               |   |              |
| Net repayments                                   | (8,393)                               | (106,389)                      |                               |   | (114,782)    |
| Equity transactions                              | 1,131                                 |                                |                               |   | 1,131        |
| Other  |                                       | (10,256)                       |                               |   | (10,256)     |

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|  |         |           |           |
|--|---------|-----------|-----------|
| Net cash used by financing activities                        | (7,262) | (116,645) | (123,907) |
| Effect of exchange rate changes on cash and cash equivalents |         |           | (288)     |
| Net change in cash and cash equivalents                      | 1       | 5,541     | (22,067)  |
| Cash and cash equivalents at the beginning of year           | 3       | 16,924    | 95,402    |
| Cash and cash equivalents at the end of period               | \$ 4    | \$ 22,465 | \$ 73,335 |
|  |         |           | \$ 95,804 |

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and WESCO International Inc.'s Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in its 2010 Annual Report on Form 10-K. The matters discussed herein may contain forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. Certain of these risks are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as well as the Company's other reports filed with the Securities and Exchange Commission.*

#### **Company Overview**

WESCO International, Inc., incorporated in 1993 and formed in February 1994 upon acquiring a distribution business from Westinghouse Electric Corporation, is a leading North American distributor of products and provider of advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 100,000 customers globally, including a large percentage of Fortune 1000 companies, through approximately 400 full service branches and seven distribution centers located primarily in the United States, Canada, Mexico, United Kingdom, Singapore, China, Australia and the United Arab Emirates and a commercial presence in six other countries. Approximately 81% of our net sales for the first six months of 2011 were generated from operations in the United States, 15% from Canada and the remainder from other countries.

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

Our financial results for the first six months of 2011 reflect improving conditions in a number of our served markets, successful growth initiatives, the positive impact from recent acquisitions, higher product prices and product costs, and favorable foreign currency exchange rates. Sales increased \$548.1 million, or 22.8%, over the same period last year. Cost of goods sold as a percentage of net sales was 79.9% and 80.5% for the first six months of 2011 and 2010, respectively. Operating income increased by \$60.1 million, or 67.1%, primarily from organic growth of the base business and recent acquisitions. Net income for the six months ended June 30, 2011 and 2010 was \$87.5 million and \$47.0 million, respectively.

#### **Cash Flow**

We generated \$22.5 million in operating cash flow for the first six months of 2011. Included in this amount was increased income as a result of improved operating results offset by investments in working capital to fund our growth. Investing activities included payments of \$8.3 million for acquisitions and \$15.9 million for capital expenditures. Financing activities consisted of borrowings and repayments of \$226.7 million and \$208.7 million, respectively, related to our revolving credit facility, and borrowings and repayments of \$100.0 million and \$90.0 million, respectively, related to our accounts receivable securitization facility ( Receivables Facility ).

#### **Financing Availability**

As of June 30, 2011, we had \$361.7 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 \$291.7 million, of which \$226.1 million is the U.S. sub-facility borrowing limit and \$65.6 million is the Canadian sub-facility borrowing limit. The available borrowing capacity under the Receivables Facility, which has a maturity date of September 6, 2013, was \$70.0 million. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. For further discussion refer to Liquidity and Capital Resources.

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

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

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

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

|  | <b>Three Months Ended<br/>June 30,</b> |             |
|--|--|-------------|
|  | <b>2011</b>                            | <b>2010</b> |
| Net sales                                    | 100.0%                                 | 100.0%      |
| Cost of goods sold                           | 79.9                                   | 80.7        |
| Selling, general and administrative expenses | 14.0                                   | 14.8        |
| Depreciation and amortization                | 0.5                                    | 0.4         |
| <b>Income from operations</b>                | <b>5.6</b>                             | <b>4.1</b>  |
| Interest expense                             | 0.9                                    | 1.1         |
| Other income                                 |  | (0.1)       |
| <b>Income before income taxes</b>            | <b>4.7</b>                             | <b>3.1</b>  |
| Provision for income taxes                   | 1.4                                    | 0.9         |
| <b>Net income</b>                            | <b>3.3%</b>                            | <b>2.2%</b> |

Net sales in the second quarter of 2011 totaled \$1,524.5 million versus \$1,259.1 million in the comparable period for 2010, an increase of \$265.4 million, or 21.1%, over the same period last year. Sales were positively impacted by growth in a number of our served markets, successful growth initiatives, recent acquisitions, which comprised 7.4% of the sales growth, higher product prices due primarily to rising supplier product and commodity prices, and favorable foreign currency exchange rates.

Cost of goods sold for the second quarter of 2011 was \$1,217.7 million versus \$1,016.2 million for the comparable period in 2010, and cost of goods sold as a percentage of net sales was 79.9% and 80.7% in 2011 and 2010, respectively. The decrease in the cost of goods sold percentage was primarily due to the positive impact from recent acquisitions, higher supplier volume rebates and a decrease in inventory reserves.

Selling, general and administrative ( SG&A ) expenses in the second quarter of 2011 totaled \$214.2 million versus \$186.0 million in last year's comparable quarter. The increase in SG&A expenses was primarily due to compensation expenses related to the growth in sales and recent acquisitions. As a percentage of net sales, SG&A expenses were 14.0% in the second quarter of 2011 compared to 14.8% in the second quarter of 2010. SG&A expenses increased at a lower rate than sales due to the continued effectiveness of our cost control initiatives and the fixed cost nature of certain SG&A expense components.

SG&A payroll expenses for the second quarter of 2011 of \$150.7 million increased by \$25.0 million compared to the same quarter in 2010. The increase in payroll expenses was primarily due to an increase in salaries and wages of \$13.1 million, an increase in commissions and incentives of \$6.4 million and an increase in benefit costs of \$4.5 million. These increases are primarily due to an increase in headcount, which is the result of both recent acquisitions and organic growth initiatives. Other SG&A payroll related expenses increased \$1.0 million.

The remaining SG&A expenses for the second quarter of 2011 of \$63.5 million increased by \$3.2 million compared to the same quarter in 2010 due to an increase in variable operating expenses associated with the growth in sales.



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Depreciation and amortization for the second quarter of 2011 was \$7.6 million versus \$5.6 million in last year's comparable quarter. The increase in depreciation and amortization is primarily due to additional amortization expense related to recently acquired intangible assets.

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Interest expense totaled \$13.9 million for the second quarter of 2011 versus \$14.4 million in last year's comparable quarter, a decrease of 3.2%. Although total debt increased, interest expense for the second quarter of 2011 was reduced as a result of both an improvement in debt mix and a decrease in interest rates. The change in fixed versus variable rate debt was due to the conversion and redemption of all of the then outstanding 2.625% Convertible Senior Debentures due 2025 in the fourth quarter of 2010 and the acquisition of the business of TVC Communications, LLC in December 2010, which was partially funded with borrowings under the Receivables Facility. The decrease in interest rates is due to amending the Receivables Facility in September 2010. Amortization of the debt discount resulted in non-cash interest expense of \$0.6 million in the second quarter of 2011 and \$1.3 million in the second quarter of 2010. Non-cash interest expense related to uncertain tax positions was \$1.2 million in second quarter of 2011 compared to \$0.3 million in the second quarter of 2010.

Other income, comprised of equity income from the LADD joint venture, totaled \$1.8 million for the second quarter of 2010. There was no other income recorded for the second quarter of 2011. The cessation of other income is due to the sale of our 40% interest in the LADD joint venture on June 7, 2010 to Deutsch Engineered Connecting Devices, Inc. ( "Deutsch"). We accounted for our investment in the LADD joint venture on an equity basis, and earnings were reported as other income in the consolidated statement of income. We received equity income through May 31, 2010 and distributions through April 20, 2010, the date Deutsch notified us of its exercise of its option to purchase our 40% interest in the LADD joint venture.

Income tax expense totaled \$20.9 million in the second quarter of 2011 compared to \$10.9 million in last year's comparable quarter, and the effective tax rate was 29.4% compared to 28.2% in the same quarter in 2010. The increase in the effective tax rate is primarily due to the increase in current and forecasted taxable income.

For the second quarter of 2011, net income increased by \$22.4 million to \$50.2 million compared to \$27.8 million in the second quarter of 2010. Diluted earnings per share was \$1.00 for the second quarter of 2011 compared with \$0.60 per diluted share for the second quarter of 2010.

*Six Months Ended June 30, 2011 versus Six Months Ended June 30, 2010*

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

|  | <b>Six Months Ended</b> |             |
|--|-------------------------|-------------|
|  | <b>June 30,</b>         |             |
|  | <b>2011</b>             | <b>2010</b> |
| Net sales                                    | 100.0%                  | 100.0%      |
| Cost of goods sold                           | 79.9                    | 80.5        |
| Selling, general and administrative expenses | 14.5                    | 15.3        |
| Depreciation and amortization                | 0.5                     | 0.5         |
| Income from operations                       | 5.1                     | 3.7         |
| Interest expense                             | 0.9                     | 1.2         |
| Other income                                 |                         | (0.2)       |
| Income before income taxes                   | 4.2                     | 2.7         |
| Provision for income taxes                   | 1.2                     | 0.8         |
| Net income                                   | 3.0%                    | 1.9%        |

Net sales in the first six months of 2011 totaled \$2,955.8 million versus \$2,407.7 million in the comparable period for 2010, an increase of \$548.1 million, or 22.8%, over the same period last year. Sales were positively impacted by growth in a number of our served markets, successful growth initiatives, recent acquisitions, which comprised 7.2% of the sales growth, higher product prices due primarily to rising supplier product and commodity prices, and favorable foreign currency exchange rates.

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Cost of goods sold for the first six months of 2011 was \$2,362.9 million versus \$1,937.4 million for the comparable period in 2010, and cost of goods sold as a percentage of net sales was 79.9% in 2011 and 80.5% in 2010. The decrease in the cost of goods sold percentage was primarily due to the positive impact from recent acquisitions, higher supplier volume rebates and a decrease in inventory reserves.

SG&A expenses in the first six months of 2011 totaled \$428.0 million versus \$369.0 million in last year's comparable period. The increase in SG&A expenses was primarily due to compensation expenses related to the growth in sales and recent acquisitions. As a percentage of net sales, SG&A expenses were 14.5% in the first six months of 2011 compared to 15.3% in the first six months of 2010. SG&A expenses increased at a lower rate than sales due to the continued effectiveness of our cost control initiatives and the fixed cost nature of certain SG&A expense components.

SG&A payroll expenses for the first six months of 2011 of \$301.1 million increased by \$50.6 million compared to the same period in 2010. The increase in payroll expenses was primarily due to an increase in salaries and wages of \$23.2 million, an increase in commissions and incentives of \$12.9 million and an increase in benefit costs of \$10.4 million. These increases are primarily due to an increase in headcount, which is the result of both recent acquisitions and organic growth initiatives. Other SG&A payroll related expenses increased \$4.1 million.

The remaining SG&A expenses for the first six months of 2011 of \$126.9 million increased by approximately \$8.4 million compared to the same period in 2010 due to an increase in variable operating expenses associated with the growth in sales and the absence of an impairment charge of \$3.8 million recorded in the prior year related to the sale of our 40% interest in the LADD joint venture.

Depreciation and amortization for the first six months of 2011 was \$15.2 million versus \$11.7 million in last year's comparable period. The increase in depreciation and amortization is primarily due to additional amortization expense related to recently acquired intangible assets.

Interest expense totaled \$26.6 million for the first six months of 2011 versus \$27.9 million in last year's comparable period, a decrease of 4.9%. Although total debt increased, interest expense for the first six months of 2011 was reduced as a result of both an improvement in debt mix and a decrease in interest rates. The change in fixed versus variable debt was due to the conversion and redemption of all the then outstanding 2.625% Convertible Senior Debentures due 2025 in the fourth quarter of 2010 and the acquisition of the business of TVC Communications, LLC in December 2010, which was partially funded with borrowings under the Receivables Facility. The decrease in interest rates is due to amending the Receivables Facility in September 2010. Amortization of the debt discount resulted in non-cash interest expense of \$1.2 million in 2011 and \$2.6 million in 2010. Non-cash interest expense related to uncertain tax positions was \$1.3 million in 2011 compared to \$0.3 million in 2010.

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

Income tax expense totaled \$35.7 million in the first six months of 2011 compared to \$19.0 million in the first six months of 2010, and the effective tax rate was 28.9% compared to 28.8% in the same period in 2010. The increase in the effective tax rate is primarily due to the increase in current and forecasted taxable income.

For the first six months of 2011, net income increased by \$40.5 million to \$87.5 million compared to \$47.0 million in the first six months of 2010. Diluted earnings per share was \$1.74 for the first six months of 2011 compared to \$1.04 per diluted share for the first six months of 2010.

**Liquidity and Capital Resources**

Total assets were \$3.0 billion at June 30, 2011, compared to \$2.8 billion at December 31, 2010. The \$199.2 million increase in total assets was primarily attributable to an increase in accounts receivable of \$128.1 million and an increase in inventory of \$45.3 million. Total liabilities at June 30, 2011 compared to December 31, 2010 increased by \$94.5 million to approximately \$1.8 billion. Contributing to the increase in total liabilities was an increase in accounts payable of \$86.7 million and an increase in long-term debt of \$28.5 million. Stockholders' equity increased 9.1% to \$1,253.3 million at June 30, 2011, compared with \$1,148.6 million at December 31, 2010, primarily as a result of net earnings of \$87.5 million, foreign currency translation adjustments of \$9.7 million and stock-based compensation expense of \$9.5 million.

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Our liquidity needs generally arise from working capital requirements, capital expenditures, acquisitions and debt service obligations. As of June 30, 2011, we had \$291.7 million in available borrowing capacity under our revolving credit facility, which, combined with our \$70.0 million of available borrowing capacity under our Receivables Facility and our invested cash, provided us with liquidity of \$414.1 million. We believe cash provided by operations and financing activities will be adequate to cover our current operational and business needs.

We communicate on a regular basis with our lenders regarding our financial and working capital performance and liquidity position. We were in compliance with all covenants and restrictions as of June 30, 2011.

We did not note any conditions or events during the second quarter of 2011 requiring an interim evaluation of impairment of goodwill. We will perform our annual impairment testing of goodwill and indefinite-lived intangible assets during the fourth quarter of 2011.

Over the next several quarters, we expect to maintain working capital productivity, and it is expected that excess cash will be directed primarily 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 our expansion needs and growth initiatives.

### *Cash Flow*

*Operating Activities.* Cash provided by operating activities for the first six months of 2011 totaled \$22.5 million compared with \$68.8 million of cash generated for the first six months of 2010. Cash provided by operating activities in the first six months of 2011 included net income of \$87.5 million and adjustments to net income totaling \$35.6 million. Other sources of cash included an increase in accounts payable of \$80.9 million resulting from the increase in sales and purchasing activity and a decrease in prepaid expenses and other current assets of \$2.1 million. Primary uses of cash during the first six months of 2011 included: \$106.5 million for the increase in trade and other receivables resulting from the increase in sales; \$40.8 million for the increase in inventory; \$19.0 million for the decrease in other current and noncurrent liabilities; and \$17.3 million for the decrease in accrued payroll and benefit costs resulting from the payment of the 2010 management incentive compensation and 401(k) discretionary contribution. During the first six months of 2010, primary sources of cash were net income of \$47.0 million and adjustments to net income totaling \$19.4 million, an increase in accounts payable of \$85.8 million, an increase in other current and noncurrent liabilities of \$7.9 million, an increase in accrued payroll and benefit costs of \$7.5 million, and a decrease in prepaid expenses and other current assets of \$3.2 million. Cash used by operating activities in the first six months of 2010 included: \$80.2 million for the increase in trade and other receivables; and \$21.8 million for the increase in inventory.

*Investing Activities.* Net cash used by investing activities for the first six months of 2011 was \$24.1 million, compared with \$38.9 million of net cash provided during the first six months of 2010. Included in 2010 were proceeds from the sale of our 40% interest in the LADD joint venture. Proceeds included \$40.0 million for our 40% interest, plus \$15.0 million for the collection of a promissory note. Investing activities for the first six months of 2011 and 2010 also included acquisition payments of \$8.3 million and \$14.3 million, respectively, and capital expenditures of \$15.9 million and \$6.0 million, respectively.

*Financing Activities.* Net cash provided by financing activities for the first six months of 2011 was \$24.7 million, compared with \$123.9 million of net cash used during the first six months of 2010. During the first six months of 2011, borrowings and repayments of long-term debt of \$226.7 million and \$208.7 million, respectively, were made under our revolving credit facility. Borrowings and repayments of \$100.0 million and \$90.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$0.8 million to our mortgage financing facility. During the first six months of 2010, borrowings and repayments of long-term debt of \$125.0 million and \$293.5 million, respectively, were made under our revolving credit facility. Borrowings and repayments of \$185.0 million and \$130.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$0.8 million to our mortgage financing facility.

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### *Contractual Cash Obligations and Other Commercial Commitments*

There were no material changes in our contractual obligations and other commercial commitments that would require an update to the disclosure provided in our 2010 Annual Report on Form 10-K. Management believes that cash generated from operations, together with amounts available under our revolving credit facility and the Receivables Facility, will be sufficient to meet our working capital, capital expenditures and other cash requirements for the foreseeable future. However, there can be no assurances that this will continue to be the case.

### **Inflation**

The rate of inflation affects different commodities, the cost of products purchased, and ultimately the pricing of our different products and product classes to our customers. Our pricing related to inflation comprised an estimated \$78.0 million of our sales revenue for the first six months of 2011. Historically, price changes from suppliers have been consistent with inflation and have not had a material impact on the results of operations. Recently, prices of certain commodities have increased much faster than general inflation; however, we expect to pass through the majority of these increases to customers.

### **Seasonality**

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

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

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

### **Forward-Looking Statements**

From time to time in this report and in other written reports and oral statements, references are made to expectations regarding our future performance. When used in this context, the words anticipates, plans, believes, estimates, intends, expects, projects, will and similar may identify forward-looking statements, although not all forward-looking statements contain such words. Such statements including, but not limited to, our statements regarding business strategy, growth strategy, competitive strengths, productivity and profitability enhancement, competition, new product and service introductions and liquidity and capital resources are based on management's beliefs, as well as on assumptions made by and information currently available to, management, and involve various risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward-looking statement made by us or on our behalf. In light of these risks and uncertainties, there can be no assurance that the forward-looking information will in fact prove to be accurate. Certain of these risks are set forth in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as well as the Company's other reports filed with the Securities and Exchange Commission. We have undertaken no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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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 June 30, 2011 that would require an update to the disclosures provided in our 2010 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

*Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

*Changes in Internal Control Over Financial Reporting*

During the second quarter of 2011, there were no changes in our internal control over financial reporting identified in connection with management's evaluation of the effectiveness of our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 initially reported in our 2008 Annual Report on Form 10-K, we are a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that we sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of approximately \$50 million. The discovery process is on-going in this matter. We have denied any liability, continue to believe that we have meritorious defenses and intend to vigorously defend ourselves against these allegations. Accordingly, no liability is recorded for this matter as of June 30, 2011.

**Item 6. Exhibits**

(a) *Exhibits*

- 31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act.
- 31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) promulgated under the Exchange Act.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive Data File\*

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

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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: August 3, 2011

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