

WESCO INTERNATIONAL INC

Form 10-Q

October 29, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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

(I.R.S. Employer Identification No.)

225 West Station Square Drive

Suite 700

Pittsburgh, Pennsylvania

(Address of principal executive offices)

N/A

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

(412) 454-2200

(Registrant's telephone number, including area code)

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 for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of October 28, 2013, WESCO International, Inc. had 44,196,606 shares of common stock outstanding.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
QUARTERLY REPORT ON FORM 10-Q

Table of Contents

|   | Page      |
|---|-----------|
| <b>PART I - FINANCIAL INFORMATION</b>   |           |
| <b>Item 1. Financial Statements</b>   |           |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012 (unaudited)</u>                                     | <u>2</u>  |
| <u>Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2013 and 2012 (unaudited)</u> | <u>3</u>  |
| <u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited)</u>                                | <u>4</u>  |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>   | <u>5</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>  | <u>18</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>25</u> |
| <u>Item 4. Controls and Procedures</u>  | <u>25</u> |
| <b>PART II - OTHER INFORMATION</b>  |           |
| <u>Item 1. Legal Proceedings</u>  | <u>26</u> |
| <u>Item 6. Exhibits</u>   | <u>26</u> |
| <u>Signatures and Certifications</u>  | <u>27</u> |
| EX-31.1   |           |
| EX-31.2   |           |
| EX-32.1   |           |
| EX-32.2   |           |
| EX-101 INSTANCE DOCUMENT  |           |
| EX-101 SCHEMA DOCUMENT  |           |
| EX-101 CALCULATION LINKBASE DOCUMENT  |           |
| EX-101 LABELS LINKBASE DOCUMENT   |           |
| EX-101 PRESENTATION LINKBASE DOCUMENT   |           |
| EX-101 DEFINITION LINKBASE DOCUMENT   |           |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (unaudited)

| Amounts in thousands, except share data   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current Assets:   |                       |                      |
| Cash and cash equivalents   | \$98,575              | \$86,099             |
| Trade accounts receivable, net of allowance for doubtful accounts of \$19,968 and \$17,242 in 2013 and 2012, respectively   | 1,116,007             | 1,036,235            |
| Other accounts receivable   | 120,587               | 89,801               |
| Inventories, net  | 795,917               | 793,974              |
| Current deferred income taxes   | 27,603                | 42,151               |
| Prepaid expenses and other current assets   | 59,981                | 53,577               |
| Total current assets  | 2,218,670             | 2,101,837            |
| Property, buildings and equipment, net of accumulated depreciation of \$211,193 and \$199,115 in 2013 and 2012, respectively  | 201,905               | 210,723              |
| Intangible assets, net  | 457,621               | 496,761              |
| Goodwill  | 1,762,331             | 1,777,797            |
| Other assets  | 38,944                | 42,511               |
| Total assets  | \$4,679,471           | \$4,629,629          |
| Liabilities and Stockholders' Equity  |                       |                      |
| Current Liabilities:  |                       |                      |
| Accounts payable  | \$754,013             | \$706,580            |
| Accrued payroll and benefit costs   | 61,697                | 86,375               |
| Short-term debt   | 32,428                | 30,136               |
| Current portion of long-term debt   | 9,581                 | 9,623                |
| Current deferred income taxes   | 680                   | 1,018                |
| Other current liabilities   | 178,412               | 174,263              |
| Total current liabilities   | 1,036,811             | 1,007,995            |
| Long-term debt, net of discount of \$180,309 and \$183,644 in 2013 and 2012, respectively   | 1,535,464             | 1,695,413            |
| Deferred income taxes   | 316,702               | 300,470              |
| Other noncurrent liabilities  | 52,169                | 72,060               |
| Total liabilities   | \$2,941,146           | \$3,075,938          |
| Commitments and contingencies (Note 8)  |                       |                      |
| Stockholders' Equity:   |                       |                      |
| Preferred stock, \$.01 par value; 20,000,000 shares authorized, no shares issued or outstanding   | —                     | —                    |
| Common stock, \$.01 par value; 210,000,000 shares authorized, 58,024,424 and 57,824,548 shares issued and 44,196,111 and 44,061,451 shares outstanding in 2013 and 2012, respectively | 580                   | 579                  |
| Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2013 and 2012, respectively                  | 43                    | 43                   |
| Additional capital  | 1,078,817             | 1,065,550            |
| Retained earnings   | 1,310,393             | 1,092,719            |
| Treasury stock, at cost; 18,167,744 and 18,102,528 shares in 2013 and 2012, respectively  | (607,273)             | (604,050)            |

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|  |             |             |   |
|--|-------------|-------------|---|
| Accumulated other comprehensive income         | (44,255     | ) (1,044    | ) |
| Total WESCO International stockholders' equity | 1,738,305   | 1,553,797   |   |
| Noncontrolling interest                        | 20          | (106        | ) |
| Total stockholders' equity                     | 1,738,325   | 1,553,691   |   |
| Total liabilities and stockholders' equity     | \$4,679,471 | \$4,629,629 |   |

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

2

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

| Amounts in thousands, except share data                            | Three Months Ended |             | Nine Months Ended |             |   |
|--|--------------------|-------------|-------------------|-------------|---|
|  | September 30,      |             | September 30,     |             |   |
|  | 2013               | 2012        | 2013              | 2012        |   |
| Net sales  | \$1,931,260        | \$1,656,186 | \$5,633,271       | \$4,934,938 |   |
| Cost of goods sold (excluding depreciation and amortization below) | 1,535,609          | 1,317,432   | 4,463,991         | 3,940,762   |   |
| Selling, general and administrative expenses                       | 255,202            | 225,812     | 748,164           | 685,130     |   |
| Depreciation and amortization                                      | 16,803             | 9,910       | 50,673            | 26,431      |   |
| Income from operations   | 123,646            | 103,032     | 370,443           | 282,615     |   |
| Interest expense, net  | 21,304             | 12,654      | 64,999            | 33,093      |   |
| Loss on sale of Argentina business                                 | 2,315              | —           | 2,315             | —           |   |
| Income before income taxes   | 100,027            | 90,378      | 303,129           | 249,522     |   |
| Provision for income taxes   | 30,909             | 26,987      | 84,567            | 74,259      |   |
| Net income   | 69,118             | 63,391      | 218,562           | 175,263     |   |
| Less: Net (loss) income attributable to noncontrolling interest    | (44                | ) (24       | ) 126             | (4          | ) |
| Net income attributable to WESCO International, Inc.               | \$69,162           | \$63,415    | \$218,436         | \$175,267   |   |
| Comprehensive income:  |                    |             |                   |             |   |
| Foreign currency translation adjustment                            | 24,619             | 10,652      | (43,211           | ) 14,297    |   |
| Comprehensive income attributable to WESCO International, Inc.     | \$93,781           | \$74,067    | \$175,225         | \$189,564   |   |
| Earnings per share attributable to WESCO International, Inc.       |                    |             |                   |             |   |
| Basic  | \$1.57             | \$1.45      | \$4.95            | \$4.02      |   |
| Diluted  | \$1.32             | \$1.25      | \$4.17            | \$3.43      |   |

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

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

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
| Amounts in thousands  | 2013                               | 2012      |
| <b>Operating Activities:</b>  |                                    |           |
| Net income  | \$218,562                          | \$175,263 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization   | 50,673                             | 26,431    |
| Stock-based compensation  | 12,534                             | 11,722    |
| Deferred income taxes   | 36,486                             | 21,934    |
| Other operating activities, net   | 2,485                              | (4,303)   |
| Changes in assets and liabilities:  |                                    |           |
| Trade receivables, net  | (91,301)                           | (60,633)  |
| Other accounts receivable   | (32,580)                           | (3,384)   |
| Inventories, net  | (11,743)                           | (16,028)  |
| Prepaid expenses and other current assets   | (5,881)                            | (2,281)   |
| Accounts payable  | 50,146                             | 38,540    |
| Accrued payroll and benefit costs   | (24,851)                           | (15,403)  |
| Accrued income taxes  | 892                                | 3,954     |
| Other current and noncurrent liabilities  | (25,753)                           | 13,871    |
| Net cash provided by operating activities   | 179,669                            | 189,683   |
| <b>Investing Activities:</b>  |                                    |           |
| Capital expenditures  | (20,472)                           | (19,469)  |
| Acquisition payments, net of cash acquired  | —                                  | (201,123) |
| Proceeds from the sale of assets  | 10,481                             | 51        |
| Other investing activities  | (1,205)                            | —         |
| Net cash used in investing activities   | (11,196)                           | (220,541) |
| <b>Financing Activities:</b>  |                                    |           |
| Proceeds from issuance of short-term debt   | 42,972                             | 21,388    |
| Repayments of short-term debt   | (33,808)                           | (2,129)   |
| Proceeds from issuance of long-term debt  | 759,470                            | 740,450   |
| Repayments of long-term debt  | (915,562)                          | (691,202) |
| (Decrease) increase in bank overdrafts  | (404)                              | 10,192    |
| Other financing activities, net   | (7,188)                            | (4,308)   |
| Net cash (used in) provided by financing activities                               | (154,520)                          | 74,391    |
| Effect of exchange rate changes on cash and cash equivalents                      | (1,477)                            | 235       |
| Net change in cash and cash equivalents   | 12,476                             | 43,768    |
| Cash and cash equivalents at the beginning of period                              | 86,099                             | 63,869    |
| Cash and cash equivalents at the end of period                                    | \$98,575                           | \$107,637 |

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



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, industrial and communications maintenance, repair and operating ("MRO") and original equipment manufactures ("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 65,000 active customers globally, through approximately 475 full service branches and nine distribution centers located primarily in the United States, Canada and Mexico, with offices in 15 additional 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 2012 Annual Report on Form 10-K filed with the SEC. The December 31, 2012 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States.

The unaudited condensed consolidated balance sheet as of September 30, 2013, the unaudited condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2013 and 2012, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2013 and 2012, respectively, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair statement of the results of the interim periods. All adjustments reflected in the unaudited condensed consolidated financial statements are of a normal recurring nature unless indicated. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Reclassification

Certain prior period amounts have been reclassified to conform with the current period's financial statement presentation.

Fair Value of Financial Instruments

The Company measures the fair value of financial assets and liabilities based on the guidance of ASC 820, "Fair Value Measurements and Disclosures," which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

At September 30, 2013, the carrying value of WESCO's 6.0% Convertible Senior Debentures due 2029 (the "2029 Debentures") was \$173.4 million and the fair value was approximately \$948.5 million. At December 31, 2012, the carrying value of WESCO's 2029 Debentures was \$171.2 million and the fair value was approximately \$853.7 million. The fair value of WESCO's 2029 Debentures is based on quoted prices in active markets and is therefore classified as



Level 1 within the valuation hierarchy. The reported carrying amounts of WESCO's other debt instruments approximate their fair values and are classified as Level 2 within the valuation hierarchy. Other debt instruments included in Level 2 are valued using a market approach, utilizing interest rates and other relevant information generated by market transactions involving similar instruments.

### Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (the "FASB") issued updated guidance on the periodic testing of indefinite-lived intangible assets, other than goodwill, for impairment. This updated guidance allows companies the option to first assess qualitative factors to determine if it is more-likely-than-not that an indefinite-lived intangible asset might be impaired and whether it is necessary to perform the quantitative impairment test required under current accounting standards. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. WESCO adopted this guidance in 2013. Adoption of this guidance did not have a material impact on WESCO's financial position, results of operations or cash flows.

In February 2013, the FASB issued updated guidance on the reporting of amounts reclassified from accumulated other comprehensive income. This updated guidance requires entities to present significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. This guidance is effective for interim and annual periods beginning after December 15, 2012.

WESCO adopted this guidance in 2013. Adoption of this guidance did not have a material impact on WESCO's financial position, results of operations or cash flows.

In July 2013, the FASB issued updated guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This updated guidance requires entities to present unrecognized tax benefits, or a portion of unrecognized tax benefits, in the financial statements as a reduction to deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. This guidance is effective for interim and annual periods beginning after December 15, 2013. WESCO will adopt this guidance in 2014. Adoption of this guidance is not expected to have a material impact on WESCO's financial position, results of operations or cash flows.

### 3. ACQUISITIONS

On December 14, 2012, WESCO completed its acquisition of EECOL Electric Corporation ("EECOL"), a full-line distributor of electrical equipment, products and services with 57 locations across Canada and 20 in South America. The purchase price allocation has not been finalized. The following unaudited pro forma results of operations illustrate the effect of the EECOL acquisition on the Company's sales and net income for the three and nine months ended September 30, 2012. This summary of the unaudited pro forma results of operations is not necessarily indicative of what WESCO's results of operations would have been had EECOL been acquired on the dates indicated, nor does it purport to represent results of operations for any future periods.

|  | Three Months Ended    |                                      | Nine Months Ended     |                                      |
|--|-----------------------|--------------------------------------|-----------------------|--------------------------------------|
|  | September 30,<br>2013 | September 30,<br>2012<br>(Pro forma) | September 30,<br>2013 | September 30,<br>2012<br>(Pro forma) |
| (In millions, except per share data)                 |                       |                                      |                       |                                      |
| Net sales  | \$1,931.3             | \$1,907.4                            | \$5,633.3             | \$5,633.8                            |
| Net income attributable to WESCO International, Inc. | 69.2                  | 83.0                                 | 218.4                 | 208.0                                |
| Earnings per common share:                           |                       |                                      |                       |                                      |
| Basic  | \$1.57                | \$1.90                               | \$4.95                | \$4.77                               |
| Diluted  | \$1.32                | \$1.63                               | \$4.17                | \$4.07                               |

### 4. STOCK-BASED COMPENSATION

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



During the three and nine months ended September 30, 2013 and 2012, WESCO granted the following stock-settled stock appreciation rights, restricted stock units and performance-based awards at the following weighted average assumptions:

|   | Three Months Ended September 30, |       | Nine Months Ended September 30, |         |   |
|---|----------------------------------|-------|---------------------------------|---------|---|
|   | 2013                             | 2012  | 2013                            | 2012    |   |
| Stock-settled appreciation rights granted | 900                              | 850   | 252,473                         | 257,932 |   |
| Restricted stock units granted            | —                                | 2,400 | 69,393                          | 74,724  |   |
| Performance-based awards granted          | —                                | —     | 48,058                          | 46,804  |   |
| Risk free interest rate                   | 1.6                              | % 0.6 | % 0.9                           | % 0.9   | % |
| Expected life (in years)                  | 5                                | 5     | 5                               | 5       |   |
| Expected volatility                       | 48                               | % 50  | % 50                            | % 50    | % |

For the three and nine months ended September 30, 2013, the weighted average fair value per stock-settled appreciation right granted was \$32.05 and \$31.33, respectively. For the three and nine months ended September 30, 2012, the weighted average fair value per stock-settled appreciation right granted was \$24.33 and \$27.89, respectively. For the nine months ended September 30, 2013 and 2012, the weighted average fair value per restricted stock unit granted was \$72.15 and \$64.27, respectively. For the nine months ended September 30, 2013 and 2012, the weighted average fair value per performance-based award granted was \$78.21 and \$75.72, respectively.

The following table sets forth a summary of stock options and stock-settled stock appreciation rights and related information for the nine months ended September 30, 2013:

|                                   | Awards    | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (In Years) | Aggregate Intrinsic Value (In thousands) |
|-----------------------------------|-----------|---------------------------------|--|--|
| Outstanding at December 31, 2012  | 3,142,021 | \$45.40                         |  |  |
| Granted                           | 252,473   | 72.17                           |  |  |
| Exercised                         | (344,446) | ) 46.88                         |  |  |
| Forfeited                         | (18,530)  | ) 60.74                         |  |  |
| Outstanding at September 30, 2013 | 3,031,518 | 47.37                           | 5.3  | \$88,397                                 |
| Exercisable at September 30, 2013 | 2,508,083 | \$43.32                         | 4.6  | \$83,305                                 |

The following table sets forth a summary of restricted stock units and related information for the nine months ended September 30, 2013:

|                                | Awards   | Weighted Average Fair Value |
|--------------------------------|----------|-----------------------------|
| Unvested at December 31, 2012  | 187,335  | \$52.28                     |
| Granted                        | 69,393   | 72.15                       |
| Vested                         | (65,705) | ) 33.63                     |
| Forfeited                      | (5,333)  | ) 60.11                     |
| Unvested at September 30, 2013 | 185,690  | \$66.08                     |

Performance shares are awards for which the vesting will occur based on market or performance conditions. The following table sets forth a summary of performance-based awards for the nine months ended September 30, 2013:

|                                | Awards | Weighted<br>Average<br>Fair<br>Value |
|--------------------------------|--------|--------------------------------------|
| Unvested at December 31, 2012  | 46,500 | \$75.72                              |
| Granted                        | 48,058 | 78.21                                |
| Vested                         | —      | —                                    |
| Forfeited                      | (2,074 | ) 76.66                              |
| Unvested at September 30, 2013 | 92,484 | \$76.98                              |

The performance-based awards in the table above include 46,242 shares in which vesting of the ultimate number of shares underlying such awards is dependent upon WESCO's total stockholder return in relation to the total stockholder return of a select group of peer companies over a three-year period. These awards are valued based upon a Monte Carlo simulation model, which is a valuation model that represents the characteristics of these grants. The probability of meeting the market criteria was considered when calculating the estimated fair market value on the date of grant. These awards are accounted for as awards with market conditions, in which compensation cost is recognized over the service period, regardless of whether the market conditions are achieved and the awards ultimately vest.

The fair value of the performance shares granted during the nine months ended September 30, 2013 were estimated using the following weighted-average assumptions:

#### Weighted Average Assumptions

|                              |         |   |
|------------------------------|---------|---|
| Grant date share price       | \$72.15 |   |
| WESCO expected volatility    | 37.8    | % |
| Peer group median volatility | 29.1    | % |
| Risk-free interest rate      | 0.38    | % |
| Correlation                  | 116.8   | % |

Vesting of the remaining 46,242 shares of performance-based awards in the table above is dependent upon the three-year average growth rate of WESCO's net income. These awards are valued based upon the grant-date closing price of WESCO's common stock. These awards are accounted for as awards with performance conditions, in which compensation cost is recognized over the performance period based upon WESCO's determination of whether it is probable that the performance targets will be achieved.

WESCO recognized \$3.7 million and \$3.2 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2013 and 2012, respectively. WESCO recognized \$12.5 million and \$11.7 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, there was \$20.8 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$3.6 million is expected to be recognized over the remainder of 2013, \$10.9 million in 2014, \$5.5 million in 2015 and \$0.8 million in 2016.

During the nine months ended September 30, 2013 and 2012, the total intrinsic value of awards exercised was \$14.1 million and \$22.4 million, respectively. The total amount of cash received from the exercise of options was less than \$0.1 million for the nine months ended September 30, 2013 and \$0.2 million for the nine months ended September 30, 2012. The tax benefit associated with the exercise of awards for the nine months ended September 30, 2013 and 2012 totaled \$4.8 million and \$5.4 million, respectively, and was recorded as an increase to additional capital.

## 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 and convertible debt.

8

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

|  | Three Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|
|  | 2013                                | 2012      |
| Net income attributable to WESCO International, Inc.   | \$69,162                            | \$63,415  |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 44,180                              | 43,705    |
| Common shares issuable upon exercise of dilutive equity awards   | 1,067                               | 1,032     |
| Common shares issuable from contingently convertible debentures (see below for basis of calculation)                 | 7,299                               | 6,036     |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 52,546                              | 50,773    |
| Earnings per share attributable to WESCO International, Inc.   |                                     |           |
| Basic  | \$1.57                              | \$1.45    |
| Diluted  | \$1.32                              | \$1.25    |
|  | Nine Months Ended<br>September 30,  |           |
|  | 2013                                | 2012      |
| Net income attributable to WESCO International, Inc.   | \$218,436                           | \$175,267 |
| Weighted average common shares outstanding used in computing basic earnings per share                                | 44,127                              | 43,596    |
| Common shares issuable upon exercise of dilutive equity awards   | 1,088                               | 1,199     |
| Common shares issuable from contingently convertible debentures (see below for basis of calculation)                 | 7,214                               | 6,262     |
| Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share | 52,429                              | 51,057    |
| Earnings per share attributable to WESCO International, Inc.   |                                     |           |
| Basic  | \$4.95                              | \$4.02    |
| Diluted  | \$4.17                              | \$3.43    |

For the three and nine months ended September 30, 2013, the computation of diluted earnings per share attributable to WESCO International, Inc. excluded 0.3 million and 0.5 million stock-settled stock appreciation rights at weighted average exercise prices of \$71.81 per share and \$65.29 per share, respectively. For the three and nine months ended September 30, 2012, the computation of diluted earnings per share attributable to WESCO International, Inc. excluded 1.0 million and 1.2 million, respectively, stock-settled stock appreciation rights at weighted average exercise prices of \$62.88 per share and \$64.12 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 2029 Debentures in cash upon conversion, WESCO is required to include shares underlying the 2029 Debentures in its diluted weighted average shares outstanding when the average stock price per share for the period exceeds the conversion price of the respective debentures. Only the number of shares issuable under the treasury stock method of accounting for share dilution are included, which is based upon the amount by which the average stock price exceeds the conversion price. The conversion price of the 2029 Debentures is \$28.87. Share dilution is limited to a maximum of 11,948,894 shares for the 2029 Debentures. For the three and nine months ended September 30, 2013, the effect of the 2029 Debentures on diluted earnings per share attributable to WESCO International, Inc. was a decrease of \$0.21 and \$0.66, respectively. For the three and nine months ended September 30, 2012, the effect of the 2029 Debentures on diluted earnings per share attributable to WESCO International, Inc. was a decrease of \$0.17 and \$0.48, respectively.

#### 6. ACCOUNTS RECEIVABLE SECURITIZATION FACILITY

On September 20, 2013, WESCO Distribution, Inc. ("WESCO Distribution") and its subsidiary WESCO Receivables Corp. entered into an amendment (the "Amendment") of the Third Amended and Restated Receivables Purchase

Agreement (the "Receivables Facility"). The Amendment increases the purchase limit under the Receivables Facility from \$475 million to \$500 million, with the opportunity to exercise an accordion feature which permits increases in the purchase limit of up to an additional \$100 million, extends the term of the Receivables Facility to September 20, 2016, and adds and amends certain

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defined terms. The Amendment also reduces the interest rate spread and commitment fee from 1.10% to 0.95% and from 0.55% to 0.45%, respectively. Substantially all other provisions of the Receivables Facility remain unchanged. Under the Receivables Facility, WESCO sells, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corp., a wholly owned special purpose entity (the "SPE"). The SPE sells, without recourse, a senior undivided interest in the receivables to third-party conduits and financial institutions for cash while maintaining a subordinated undivided interest in the receivables, in the form of overcollateralization. WESCO has agreed to continue servicing the sold receivables for the third-party conduits and financial institutions at market rates; accordingly, no servicing asset or liability has been recorded.

The consolidated balance sheets as of September 30, 2013 and December 31, 2012 reflect \$500 million and \$445 million, respectively, of accounts receivable balances legally sold to third parties, as well as borrowings for equal amounts. At September 30, 2013, the interest rate on borrowings under this facility was approximately 1.1%.

## 7. EMPLOYEE BENEFIT PLANS

A majority of WESCO's employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO's formation. WESCO also offers a deferred compensation plan for select individuals. For U.S. participants, WESCO will make contributions in an amount equal to 50% of the participant's total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO will make contributions in an amount ranging from 1% to 7% of the participant's eligible compensation based on years of continuous service. In addition, employer contributions may be made at the discretion of the Board of Directors. For the nine months ended September 30, 2013 and 2012, WESCO incurred charges of \$25.7 million and \$24.2 million, respectively, for all such plans. Contributions are made in cash to defined contribution retirement savings plans. The deferred compensation plan is an unfunded plan. Employees have the option to transfer balances allocated to their accounts in the defined contribution retirement savings plan and the deferred compensation plan into any of the available investment options. An investment option for employees in the defined contribution retirement savings plan is WESCO common stock.

In connection with the December 14, 2012 acquisition of EECOL, the Company assumed a contributory defined benefit plan covering substantially all Canadian employees of EECOL and a Supplemental Executive Retirement Plan for certain executives of EECOL. The following table reflects the components of net periodic benefit costs for the Company's defined benefit plans for the three and nine months ended September 30, 2013 and 2012:

|                                | Three Months Ended |      | Nine Months Ended |      |
|--------------------------------|--------------------|------|-------------------|------|
|                                | September 30,      |      | September 30,     |      |
|                                | 2013               | 2012 | 2013              | 2012 |
| Service cost                   | \$996              | \$—  | \$3,049           | \$—  |
| Interest cost                  | 1,117              | —    | 3,422             | —    |
| Expected return on plan assets | (1,173             | ) —  | (3,081            | ) —  |
| Net periodic benefit cost      | \$940              | \$—  | \$3,390           | \$—  |

In the third quarter of 2013, the Company made a \$21.1 million non-recurring contribution to its defined benefit plan covering all Canadian EECOL employees, as required pursuant to the terms of the share purchase agreement by which the Company acquired EECOL in 2012. EECOL sellers facilitated this contribution by way of a direct reduction in the purchase price at the date of acquisition. During the three and nine months ended September 30, 2013, the Company made cash contributions of \$22.1 million and \$23.9 million, respectively, to its defined benefit plans.

## 8. COMMITMENTS AND CONTINGENCIES

As initially reported in our 2008 Annual Report on Form 10-K, WESCO is a defendant in a lawsuit filed in a state court in Indiana in which a customer, ArcelorMittal Indiana Harbor, Inc. ("AIH"), alleges that the Company sold defective products to AIH in 2004 that were supplied to the Company by others. The lawsuit sought monetary damages in the amount of approximately \$50 million. On February 14, 2013, the jury returned a verdict in favor of AIH and awarded damages in the amount of approximately \$36.1 million, and judgment was entered on the jury's verdict. The Company disputes this outcome and filed a post-trial motion challenging the verdict alleging various errors that occurred during trial. The Company received letters from its insurers confirming insurance coverage of the

matter and recorded a receivable in the quarter ended March 31, 2013 in an amount equal to the previously recorded liability. AIH also filed a post-trial motion asking the court to award additional amounts to AIH, including prejudgment and post-judgment interest. The Court denied the Company's post-trial

motion on June 28, 2013 and granted in part AIH's motion, awarding prejudgment interest in the amount of \$3.9 million and ordering post-judgment interest to accrue on the entire judgment at 8% per annum. In the quarter ended June 30, 2013, the Company received letters from its insurers confirming insurance coverage of all prejudgment and post-judgment interest related to the matter, and recorded a liability and a corresponding receivable in the amount of \$4.7 million for all interest accrued in connection with this matter. Final judgment was entered by the court on July 16, 2013, and the Company is appealing the judgment. The Company has recorded an additional liability and a corresponding receivable in the amount of \$0.8 million for post-judgment interest accrued in connection with this matter during the quarter ended September 30, 2013. The judgment may increase or decrease based on the outcome of the appellate proceedings that cannot be predicted with certainty.

## 9. INCOME TAXES

The effective tax rate for the three months ended September 30, 2013 and 2012 was 30.9% and 29.9% respectively, and the effective rate for the nine months ended September 30, 2013 and 2012 was 27.9% and 29.8%, respectively. WESCO's three and nine month effective tax rates are lower than the federal statutory rate of 35% primarily due to benefits resulting from the tax effect of intercompany financing and lower tax rates on foreign earnings, which are partially offset by nondeductible expenses and state taxes. The effective tax rate for the nine months ended September 30, 2013 reflects discrete tax expense totaling \$0.3 million, primarily related to enacted state tax rate changes and changes in uncertain tax positions. The effective tax rate for the nine months ended September 30, 2012 included discrete tax benefits totaling \$3.2 million, primarily related to state taxes and changes in uncertain tax positions.

The total amount of unrecognized tax benefits were \$23.2 million and \$21.1 million as of September 30, 2013 and December 31, 2012, respectively. A related deferred tax asset in the amount of \$28.0 million excluding interest has been recorded. 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 \$23.2 million and \$21.2 million, respectively. This amount would be offset by the corresponding deferred tax asset discussed above.

During the next twelve months, it is reasonably possible that the amount of unrecognized tax benefits will decrease by as much as \$17.2 million (\$15.6 million of which will be offset by the reversal of deferred tax assets) due to possible resolution of federal, state and/or foreign tax examinations and/or the expiration of statutes of limitations.

Management does not expect this decrease to have an impact on the effective tax rate.

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. There were no material penalties recorded during the three or nine months ended September 30, 2013 or 2012. As of September 30, 2013, and December 31, 2012, WESCO had an accrued liability of \$8.4 million and \$8.0 million, respectively, for interest related to uncertain tax positions.

## 10. OTHER FINANCIAL INFORMATION

WESCO International, Inc. ("WESCO International") has outstanding \$344.9 million in aggregate principal amount of 2029 Debentures. The 2029 Debentures are fully and unconditionally guaranteed by WESCO Distribution, Inc. ("WESCO Distribution"), a 100% owned subsidiary of WESCO International, 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:

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEETS  
(unaudited)

|   | September 30, 2013<br>(In thousands) |                                |                               |  |              |
|---|--------------------------------------|--------------------------------|-------------------------------|--|--------------|
|   | WESCO<br>International,<br>Inc.      | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Cash and cash equivalents                         | \$—                                  | \$45,838                       | \$ 52,737                     | \$—  | \$98,575     |
| Trade accounts receivable, net                    | —                                    | —                              | 1,116,007                     | —  | 1,116,007    |
| Inventories, net                                  | —                                    | 347,319                        | 448,598                       | —  | 795,917      |
| Other current assets                              | —                                    | 93,993                         | 114,178                       | —  | 208,171      |
| Total current assets                              | —                                    | 487,150                        | 1,731,520                     | —  | 2,218,670    |
| Intercompany receivables, net                     | —                                    | —                              | 1,829,020                     | (1,829,020 )                                   | —            |
| Property, buildings and equipment, net            | —                                    | 59,135                         | 142,770                       | —  | 201,905      |
| Intangible assets, net                            | —                                    | 5,538                          | 452,083                       | —  | 457,621      |
| Goodwill  | —                                    | 246,125                        | 1,516,206                     | —  | 1,762,331    |
| Investments in affiliates                         | 3,107,052                            | 3,705,286                      | —                             | (6,812,338 )                                   | —            |
| Other noncurrent assets                           | 4,431                                | 15,591                         | 18,922                        | —  | 38,944       |
| Total assets                                      | \$3,111,483                          | \$4,518,825                    | \$ 5,690,521                  | \$(8,641,358)                                  | \$4,679,471  |
| Accounts payable                                  | \$—                                  | \$413,738                      | \$ 340,275                    | \$—  | \$754,013    |
| Short-term debt                                   | —                                    | —                              | 32,428                        | —  | 32,428       |
| Other current liabilities                         | 998                                  | 123,014                        | 126,358                       | —  | 250,370      |
| Total current liabilities                         | 998                                  | 536,752                        | 499,061                       | —  | 1,036,811    |
| Intercompany payables, net                        | 1,170,739                            | 658,281                        | —                             | (1,829,020 )                                   | —            |
| Long-term debt                                    | 173,374                              | 715,221                        | 646,869                       | —  | 1,535,464    |
| Other noncurrent liabilities                      | 28,067                               | 202,545                        | 138,259                       | —  | 368,871      |
| Total WESCO International Stockholders'<br>Equity | 1,738,305                            | 2,406,026                      | 4,406,312                     | (6,812,338 )                                   | 1,738,305    |
| Noncontrolling interest                           | —                                    | —                              | 20                            | —  | 20           |
| Total liabilities and stockholders' equity        | \$3,111,483                          | \$4,518,825                    | \$ 5,690,521                  | \$(8,641,358)                                  | \$4,679,471  |

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATING BALANCE SHEETS  
 (unaudited)

|   | December 31, 2012<br>(In thousands) |                                |                               |  |              |
|---|-------------------------------------|--------------------------------|-------------------------------|--|--------------|
|   | WESCO<br>International,<br>Inc.     | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Cash and cash equivalents                         | \$—                                 | \$52,275                       | \$ 33,824                     | \$—  | \$86,099     |
| Trade accounts receivable, net                    | —                                   | —                              | 1,036,235                     | —  | 1,036,235    |
| Inventories, net                                  | —                                   | 347,008                        | 446,966                       | —  | 793,974      |
| Other current assets                              | —                                   | 66,107                         | 118,404                       | 1,018  | 185,529      |
| Total current assets                              | —                                   | 465,390                        | 1,635,429                     | 1,018  | 2,101,837    |
| Intercompany receivables, net                     | —                                   | —                              | 1,756,898                     | (1,756,898 )                                   | —            |
| Property, buildings and equipment, net            | —                                   | 58,523                         | 152,200                       | —  | 210,723      |
| Intangible assets, net                            | —                                   | 6,153                          | 490,608                       | —  | 496,761      |
| Goodwill  | —                                   | 246,125                        | 1,531,672                     | —  | 1,777,797    |
| Investments in affiliates                         | 2,918,779                           | 3,590,772                      | —                             | (6,509,551 )                                   | —            |
| Other noncurrent assets                           | 4,671                               | 16,842                         | 19,656                        | 1,342  | 42,511       |
| Total assets                                      | \$2,923,450                         | \$4,383,805                    | \$ 5,586,463                  | \$(8,264,089 )                                 | \$4,629,629  |
| Accounts payable                                  | \$—                                 | \$401,016                      | \$ 305,564                    | \$—  | \$706,580    |
| Short-term debt                                   | —                                   | —                              | 30,136                        | —  | 30,136       |
| Other current liabilities                         | 16,779                              | 100,956                        | 152,526                       | 1,018  | 271,279      |
| Total current liabilities                         | 16,779                              | 501,972                        | 488,226                       | 1,018  | 1,007,995    |
| Intercompany payables, net                        | 1,153,562                           | 603,336                        | —                             | (1,756,898 )                                   | —            |
| Long-term debt                                    | 171,213                             | 847,761                        | 676,439                       | —  | 1,695,413    |
| Other noncurrent liabilities                      | 28,099                              | 190,294                        | 152,795                       | 1,342  | 372,530      |
| Total WESCO International Stockholders'<br>Equity | 1,553,797                           | 2,240,442                      | 4,269,109                     | (6,509,551 )                                   | 1,553,797    |
| Noncontrolling interest                           | —                                   | —                              | (106 )                        | —  | (106 )       |
| Total liabilities and stockholders' equity        | \$2,923,450                         | \$4,383,805                    | \$ 5,586,463                  | \$(8,264,089 )                                 | \$4,629,629  |

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

Three Months Ended September 30, 2013  
 (In thousands)

|  | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales  | \$—                             | \$878,851                      | \$ 1,082,585                  | \$ (30,176 )                                   | \$1,931,260  |
| Cost of goods sold   | —                               | 698,965                        | 866,820                       | (30,176 )                                      | 1,535,609    |
| Selling, general and administrative expenses                   | 19                              | 129,518                        | 125,665                       | —  | 255,202      |
| Depreciation and amortization                                  | —                               | 4,668                          | 12,135                        | —  | 16,803       |
| Results of affiliates' operations                              | 73,241                          | 58,574                         | —                             | (131,815 )                                     | —            |
| Interest expense, net  | 5,944                           | 18,823                         | (3,463 )                      | —  | 21,304       |
| Loss on sale of Argentina business                             | —                               | —                              | 2,315                         | —  | 2,315        |
| Provision for income taxes                                     | (1,840 )                        | 19,856                         | 12,893                        | —  | 30,909       |
| Net income (loss)  | 69,118                          | 65,595                         | 66,220                        | (131,815 )                                     | 69,118       |
| Less: Net income attributable to noncontrolling interest       | —                               | —                              | (44 )                         | —  | (44 )        |
| Net income (loss) attributable to WESCO International, Inc.    | \$69,118                        | \$65,595                       | \$ 66,264                     | \$ (131,815 )                                  | \$69,162     |
| Comprehensive income:  |                                 |                                |                               |  |              |
| Foreign currency translation adjustment                        | 24,619                          | 24,619                         | 24,619                        | (49,238 )                                      | 24,619       |
| Comprehensive income attributable to WESCO International, Inc. | \$93,737                        | \$90,214                       | \$ 90,883                     | \$ (181,053 )                                  | \$93,781     |

Three Months Ended September 30, 2012  
 (In thousands)

|  | WESCO<br>International,<br>Inc. | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
|--|---------------------------------|--------------------------------|-------------------------------|--|--------------|
| Net sales  | \$—                             | \$868,289                      | \$ 818,213                    | \$ (30,316 )                                   | \$1,656,186  |
| Cost of goods sold   | —                               | 689,462                        | 658,286                       | (30,316 )                                      | 1,317,432    |
| Selling, general and administrative expenses                   | 25                              | 121,067                        | 104,720                       | —  | 225,812      |
| Depreciation and amortization                                  | —                               | 3,979                          | 5,931                         | —  | 9,910        |
| Results of affiliates' operations                              | 68,055                          | 34,887                         | —                             | (102,942 )                                     | —            |
| Interest expense, net  | 6,623                           | 11,886                         | (5,855 )                      | —  | 12,654       |
| Provision for income taxes                                     | (1,984 )                        | 16,248                         | 12,723                        | —  | 26,987       |
| Net income (loss)  | 63,391                          | 60,534                         | 42,408                        | (102,942 )                                     | 63,391       |
| Less: Net income attributable to noncontrolling interest       | —                               | —                              | (24 )                         | —  | (24 )        |
| Net income (loss) attributable to WESCO International, Inc.    | \$63,391                        | \$60,534                       | \$ 42,432                     | \$ (102,942 )                                  | \$63,415     |
| Comprehensive income:  |                                 |                                |                               |  |              |
| Foreign currency translation adjustment                        | 10,652                          | 10,652                         | 10,652                        | (21,304 )                                      | 10,652       |
| Comprehensive income attributable to WESCO International, Inc. | \$74,043                        | \$71,186                       | \$ 53,084                     | \$ (124,246 )                                  | \$74,067     |



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

|  | Nine Months Ended September 30, 2013<br>(In thousands) |                                |                               |  |              |
|--|--|--------------------------------|-------------------------------|--|--------------|
|  | WESCO<br>International,<br>Inc.                        | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Net sales  | \$—  | \$2,572,693                    | \$ 3,154,350                  | \$ (93,772 )                                   | \$5,633,271  |
| Cost of goods sold   | —  | 2,047,937                      | 2,509,826                     | (93,772 )                                      | 4,463,991    |
| Selling, general and administrative expenses                   | 24   | 368,853                        | 379,287                       | —  | 748,164      |
| Depreciation and amortization                                  | —  | 13,551                         | 37,122                        | —  | 50,673       |
| Results of affiliates' operations                              | 231,481  | 157,726                        | —                             | (389,207 )                                     | —            |
| Interest expense, net  | 17,893   | 56,667                         | (9,561 )                      | —  | 64,999       |
| Loss on sale of Argentina business                             | —  | —                              | 2,315                         | —  | 2,315        |
| Provision for income taxes                                     | (4,998 )   | 34,617                         | 54,948                        | —  | 84,567       |
| Net income (loss)  | 218,562  | 208,794                        | 180,413                       | (389,207 )                                     | 218,562      |
| Less: Net income attributable to noncontrolling interest       | —  | —                              | 126                           | —  | 126          |
| Net income (loss) attributable to WESCO International, Inc.    | \$218,562  | \$208,794                      | \$ 180,287                    | \$ (389,207 )                                  | \$218,436    |
| Comprehensive income:  |  |                                |                               |  |              |
| Foreign currency translation adjustment                        | (43,211 )  | (43,211 )                      | (43,211 )                     | 86,422   | (43,211 )    |
| Comprehensive income attributable to WESCO International, Inc. | \$175,351  | \$165,583                      | \$ 137,076                    | \$ (302,785 )                                  | \$175,225    |
|  | Nine Months Ended September 30, 2012<br>(In thousands) |                                |                               |  |              |
|  | WESCO<br>International,<br>Inc.                        | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Net sales  | \$—  | \$2,602,688                    | \$ 2,432,239                  | \$ (99,989 )                                   | \$4,934,938  |
| Cost of goods sold   | —  | 2,074,165                      | 1,966,586                     | (99,989 )                                      | 3,940,762    |
| Selling, general and administrative expenses                   | 49   | 413,540                        | 271,541                       | —  | 685,130      |
| Depreciation and amortization                                  | —  | 11,232                         | 15,199                        | —  | 26,431       |
| Results of affiliates' operations                              | 187,903  | 122,064                        | —                             | (309,967 )                                     | —            |
| Interest expense, net  | 17,944   | 32,200                         | (17,051 )                     | —  | 33,093       |
| Provision for income taxes                                     | (5,353 )   | 27,739                         | 51,873                        | —  | 74,259       |
| Net income (loss)  | 175,263  | 165,876                        | 144,091                       | (309,967 )                                     | 175,263      |
| Less: Net income attributable to noncontrolling interest       | —  | —                              | (4 )                          | —  | (4 )         |
| Net income (loss) attributable to WESCO International, Inc.    | \$175,263  | \$165,876                      | \$ 144,095                    | \$ (309,967 )                                  | \$175,267    |
| Comprehensive income:  |  |                                |                               |  |              |
| Foreign currency translation adjustment                        | 14,297   | 14,297                         | 14,297                        | (28,594 )                                      | 14,297       |
| Comprehensive income attributable to WESCO International, Inc. | \$189,560  | \$180,173                      | \$ 158,392                    | \$ (338,561 )                                  | \$189,564    |





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

|  | Nine Months Ended September 30, 2013<br>(In thousands) |                                |                               |  |              |
|--|--|--------------------------------|-------------------------------|--|--------------|
|  | WESCO<br>International,<br>Inc.                        | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Net cash (used) provided by operating activities             | \$(14,515 )  | \$163,190                      | \$ 30,994                     | \$ —   | \$179,669    |
| Investing activities:  |  |                                |                               |  |              |
| Capital expenditures   | —  | (16,421 )                      | (4,051 )                      | —  | (20,472 )    |
| Acquisition payments   | —  | —                              | —                             | —  | —            |
| Proceeds from sale of assets                                 | —  | —                              | 10,481                        | —  | 10,481       |
| Other  | —  | (17,176 )                      | (1,205 )                      | 17,176   | (1,205 )     |
| Net cash (used) provided by investing activities             | —  | (33,597 )                      | 5,225                         | 17,176   | (11,196 )    |
| Financing activities:  |  |                                |                               |  |              |
| Borrowings   | 17,176   | 508,213                        | 294,229                       | (17,176 )                                      | 802,442      |
| Repayments   | —  | (640,713 )                     | (308,657 )                    | —  | (949,370 )   |
| Other  | (2,661 )   | (3,530 )                       | (1,401 )                      | —  | (7,592 )     |
| Net cash provided (used) by financing activities             | 14,515   | (136,030 )                     | (15,829 )                     | (17,176 )                                      | (154,520 )   |
| Effect of exchange rate changes on cash and cash equivalents | —  | —                              | (1,477 )                      | —  | (1,477 )     |
| Net change in cash and cash equivalents                      | —  | (6,437 )                       | 18,913                        | —  | 12,476       |
| Cash and cash equivalents at the beginning of year           | —  | 52,275                         | 33,824                        | —  | 86,099       |
| Cash and cash equivalents at the end of period               | \$—  | \$45,838                       | \$ 52,737                     | \$ —   | \$98,575     |



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

|  | Nine Months Ended September 30, 2012<br>(In thousands) |                                |                               |  |              |
|--|--|--------------------------------|-------------------------------|--|--------------|
|  | WESCO<br>International,<br>Inc.                        | WESCO<br>Distribution,<br>Inc. | Non-Guarantor<br>Subsidiaries | Consolidating<br>and<br>Eliminating<br>Entries | Consolidated |
| Net cash (used) provided by operating activities             | \$(3,020 )   | \$272,123                      | \$ (79,420 )                  | \$ —   | \$189,683    |
| Investing activities:  |  |                                |                               |  |              |
| Capital expenditures   | —  | (15,654 )                      | (3,815 )                      | —  | (19,469 )    |
| Acquisition payments   | —  | (142,483 )                     | (58,640 )                     | —  | (201,123 )   |
| Proceeds from sale of assets                                 | —  | 51                             | —                             | —  | 51           |
| Other  | —  | (64,129 )                      | —                             | 64,129   | —            |
| Net cash used in investing activities                        | —  | (222,215 )                     | (62,455 )                     | 64,129   | (220,541 )   |
| Financing activities:  |  |                                |                               |  |              |
| Borrowings   | 5,489  | 177,300                        | 643,178                       | (64,129 )                                      | 761,838      |
| Repayments   | —  | (204,300 )                     | (489,031 )                    | —  | (693,331 )   |
| Other  | (2,469 )   | 8,353                          | —                             | —  | 5,884        |
| Net cash provided (used) by financing activities             | 3,020  | (18,647 )                      | 154,147                       | (64,129 )                                      | 74,391       |
| Effect of exchange rate changes on cash and cash equivalents | —  | —                              | 235                           | —  | 235          |
| Net change in cash and cash equivalents                      | —  | 31,261                         | 12,507                        | —  | 43,768       |
| Cash and cash equivalents at the beginning of year           | —  | 44,412                         | 19,457                        | —  | 63,869       |
| Cash and cash equivalents at the end of period               | \$—  | \$75,673                       | \$ 31,964                     | \$ —   | \$107,637    |

The Company revised its condensed consolidating balance sheet as of December 31, 2012 to include WESCO Finance Corporation ("WESCO Finance"), a subsidiary of WESCO International, as a non-guarantor subsidiary. Previously, WESCO Finance was included in the WESCO International column of the Company's condensed consolidating balance sheets. In doing so, the Company recorded the \$480.2 million investment in WESCO Finance as an increase in investments in affiliates, with an offsetting increase in intercompany payables, net. The Company increased intercompany receivables, net by \$679.9 million with a corresponding increase in stockholders' equity of non-guarantor subsidiaries to record WESCO Finance as a non-guarantor subsidiary. Additionally, the Company recorded the cumulative accrued interest payable of \$198.1 million related to an intercompany loan between WESCO Distribution and WESCO Finance by adjusting the stockholders' equity of WESCO Distribution at December 31, 2012 with a corresponding increase in intercompany payables, net. The Company also decreased non-current liabilities of WESCO International by \$1.6 million with a corresponding increase to intercompany payable, net at December 31, 2012. The Company made additional immaterial revisions related to other intercompany transactions in the condensed consolidating balance sheet at December 31, 2012.

The Company revised its condensed consolidating statements of income and comprehensive income for the three month and nine month periods ended September 30, 2012. The Company revised net sales related to intercompany sales eliminations by increasing net sales of non-guarantor subsidiaries by \$2.0 million and decreasing net sales in consolidating and eliminated entries for the same amount for the three month period ending September 30, 2012. The Company revised interest expense related to intercompany borrowings increasing interest expense of WESCO

International by \$0.5 million and \$0.5 million, increasing interest expense of WESCO Distribution by \$8.2 million and \$24.5 million and decreasing interest expense of non-guarantor subsidiaries by \$8.7 million and \$25.0 million for the three and nine month periods ending September 30, 2012. In addition, the Company revised its methodology for allocating income tax expense during interim reporting periods, resulting in a decrease in income tax expense of WESCO International by \$2.0 million and \$5.4 million, a decrease in income tax expense of WESCO Distribution by \$8.4 million and \$40.0 million and an increase in income tax expense of non-guarantor subsidiaries by \$10.4 million and \$45.4 million for the three and nine month periods ending September 30, 2012, respectively.

The Company revised its condensed statement of cash flows to present cash paid for acquisitions of \$58.6 million for the nine months ended September 30, 2012 as intercompany loans to non-guarantor subsidiaries. These payments represent acquisitions made by the non-guarantor subsidiaries that were funded by WESCO Distribution. Such transactions have now been revised to reflect an investing cash outflow and a corresponding intercompany borrowing from WESCO Distribution as a financing cash inflow in the statement of cash flows of the non-guarantor subsidiaries. Additionally, the revised statements present proceeds from issuance of debt and repayments of debt along with properly classifying debt between WESCO Distribution (proceeds of \$177.3 million and repayments of \$204.3 million) and non-guarantor subsidiaries (proceeds of \$643.2 million and repayments of \$489.0 million). Lastly, the Company revised its condensed consolidating statement of cash flows to reflect a \$5.5 million advance from WESCO Distribution to WESCO International.

The impact of the revisions noted above, which the Company has determined is not material to the consolidated financial statements taken as a whole, did not have any impact on the consolidated amounts previously reported, nor did they impact the Company's obligations under the 2029 Debentures. The prior period condensed consolidating financial statements will be similarly revised as the information is presented in the Company's annual Form 10-K filing for 2013 and first quarter Form 10-Q filing for 2014.

## 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 2012 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, 2012, as well as the Company's other reports filed with the Securities and Exchange Commission.

### Company Overview

WESCO International, Inc. ("WESCO International"), incorporated in 1993 and effectively formed in February 1994 upon acquiring a distribution business from Westinghouse Electric Corporation, is a leading North American based distributor of products and provider of advanced supply chain management and logistics services used primarily in industrial, construction, utility and commercial, institutional and government ("CIG") markets. We are a leading provider 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. 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, motors, and safety.

We serve over 65,000 active customers globally through approximately 475 full service branches and nine distribution centers located in the United States, Canada, and Mexico with offices in 15 additional countries. At the end of 2012, we had approximately 9,000 employees worldwide. We distribute over 1,000,000 products, grouped into six categories, from more than 18,000 suppliers utilizing a highly automated, proprietary electronic procurement and inventory replenishment system.

In addition, we offer a comprehensive portfolio of value-added capabilities, 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.

In December 2012, we completed the acquisition of EECOL Electric Corporation ("EECOL") with approximately \$0.9 billion in annual sales, 57 locations across Canada and 20 in South America, and more than 20,000 customers. Our financial results for the first nine months of 2013 reflect the positive impact from recent acquisitions. Net sales increased \$698.3 million, or 14.2%, over the same period last year. Cost of goods sold as a percentage of net sales was 79.2% and 79.9% for the first nine months of 2013 and 2012, respectively. Selling, general, and administrative ("SG&A") expenses as a percentage of net sales were 13.3% and 13.9% for the first nine months of 2013 and 2012, respectively. The decrease in SG&A expenses as a percentage of net sales was due to recording a \$36.1 million receivable in the first quarter of 2013, which was equal to the liability recorded in the fourth quarter of 2012. Operating income increased by \$87.8 million, or 31.1%, primarily from recent acquisitions and the reduction in SG&A expenses due to recording the \$36.1 million receivable in the first quarter of 2013. Net income attributable to WESCO International for the nine months ended September 30, 2013 and 2012 was \$218.4 million and \$175.3 million, respectively.

### Cash Flow

We generated \$179.7 million in operating cash flow for the first nine months of 2013. Included in this amount was increased income from operations partially offset by investments in working capital to fund our growth and a non-recurring contribution to the Company's defined benefit plan covering all Canadian employees of EECOL. Investing activities included payments of \$20.5 million for capital expenditures partially offset by \$10.5 million in proceeds from the sale of assets. Financing activities consisted of borrowings and repayments of \$669.8 million and \$828.3 million, respectively, related to our revolving credit facility (the "Revolving Credit Facility"), borrowings and

repayments of \$89.7 million and \$34.7 million, respectively, related to our accounts receivable securitization facility (the "Receivables Facility"), repayments of \$26.4 million which extinguished our mortgage financing facility, and repayments of \$26.2 million applied to the Company's term loan facility (the "Term Loan Facility"). Financing activities in 2013 also included borrowings and repayments on our various international lines of credit of approximately \$43.0 million and \$33.8 million, respectively. Free cash flow for the first nine months of 2013 and 2012 was \$180.3 million and \$170.1 million, respectively.

The following table sets forth the components of free cash flow:

| Free Cash Flow:<br>(In millions)        | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|--------|------------------------------------|---------|
|   | 2013                                | 2012   | 2013                               | 2012    |
| Cash flow provided by operations        | \$59.9                              | \$74.4 | \$179.7                            | \$189.6 |
| Less: Capital expenditures              | (8.7                                | ) (7.2 | ) (20.5                            | ) (19.5 |
| Add: Non-recurring pension contribution | 21.1                                | —      | 21.1                               | —       |
| Free cash flow                          | \$72.3                              | \$67.2 | \$180.3                            | \$170.1 |

Note: Free cash flow is provided by the Company as an additional liquidity measure. Capital expenditures are deducted from operating cash flow to determine free cash flow. Free cash flow is available to provide a source of funds for any of the Company's financing needs. An additional adjustment was made to calculate free cash flow during the three and nine months ended September 30, 2013 for a non-recurring contribution to the defined benefit pension plan covering all Canadian EECOL employees. This contribution was required pursuant to the terms of the share purchase agreement by which the Company acquired EECOL in 2012. EECOL sellers facilitated this contribution by way of a direct reduction in the purchase price at the date of acquisition.

#### Financing Availability

As of September 30, 2013, we had \$477.2 million in total available borrowing capacity under our Revolving Credit Facility, which has a maturity date in August 2016. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. For further discussion refer to "Liquidity and Capital Resources."

#### Critical Accounting Policies and Estimates

During the nine months ended September 30, 2013, there were no significant changes to our critical accounting policies and estimates referenced in our 2012 Annual Report on Form 10-K.

#### Results of Operations

##### Third Quarter of 2013 versus Third Quarter of 2012

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<br>September 30, |         |   |
|--|-------------------------------------|---------|---|
|  | 2013                                | 2012    |   |
| Net sales  | 100.0                               | % 100.0 | % |
| Cost of goods sold                                   | 79.5                                | 79.5    |   |
| Selling, general and administrative expenses         | 13.2                                | 13.6    |   |
| Depreciation and amortization                        | 0.9                                 | 0.7     |   |
| Income from operations                               | 6.4                                 | 6.2     |   |
| Interest expense                                     | 1.1                                 | 0.8     |   |
| Loss on sale of Argentina business                   | 0.1                                 | —       |   |
| Income before income taxes                           | 5.2                                 | 5.4     |   |
| Provision for income taxes                           | 1.6                                 | 1.6     |   |
| Net income attributable to WESCO International, Inc. | 3.6                                 | % 3.8   | % |

Net sales in the third quarter of 2013 totaled \$1.9 billion versus \$1.7 billion in the comparable period for 2012, an increase of \$275.1 million, or 16.6%, over the same period last year. Acquisitions positively impacted sales by 14.1%, organic sales increased 3.2%, and foreign exchange negatively impacted sales by 0.7%. Adjusting for the impact of one additional workday in the quarter, normalized organic sales increased 1.6%. Sequentially, sales increased 2.0%,



and organic sales increased 2.3%.

19

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The following table sets forth normalized organic sales growth:

| Normalized Organic Sales:                | Three Months Ended |    |      |    |
|--|--------------------|----|------|----|
|  | September 30,      |    |      |    |
|  | 2013               |    | 2012 |    |
| Change in net sales                      | 16.6               | %  | 4.8  | %  |
| Less: Impact from acquisitions           | 14.1               | %  | 4.0  | %  |
| Less: Impact from foreign exchange rates | (0.7               | )% | (0.6 | )% |
| Less: Impact from number of workdays     | 1.6                | %  | (1.6 | )% |
| Normalized organic sales growth          | 1.6                | %  | 3.0  | %  |

Note: Normalized organic sales growth is provided by the Company as an additional financial measure to provide a better understanding of the Company's sales growth trends. Normalized organic sales growth is calculated by deducting the percentage impact on net sales from acquisitions, foreign exchange rates and number of workdays from the overall percentage change in consolidated net sales.

Cost of goods sold for the third quarter of 2013 was \$1.5 billion versus \$1.3 billion for the comparable period in 2012, and cost of goods sold as a percentage of net sales was 79.5% in 2013 and 2012.

SG&A expenses in the third quarter of 2013 totaled \$255.2 million versus \$225.8 million in last year's comparable quarter. As a percentage of net sales, SG&A expenses were 13.2% in the third quarter of 2013 compared to 13.6% in the third quarter of 2012. The increase in SG&A expenses was the result of the EECOL acquisition.

SG&A payroll expenses for the third quarter of 2013 of \$179.5 million increased by \$17.9 million compared to the same quarter in 2012. The increase in SG&A payroll expenses was primarily due to an increase in salaries and wages of \$17.0 million and an increase in commissions and incentives of \$1.4 million, partially offset by a decrease in benefit costs of \$0.6 million. These increases are primarily due to the EECOL acquisition.

Depreciation and amortization for the third quarter of 2013 was \$16.8 million versus \$9.9 million in last year's comparable quarter. The increase in depreciation and amortization is primarily due to the amortization of intangible assets from the acquisition of EECOL in 2012. Amortization of intangible assets of EECOL totaled \$5.5 million in the third quarter of 2013.

Interest expense totaled \$21.3 million for the third quarter of 2013 versus \$12.7 million in last year's comparable quarter, an increase of 68.4%. The following table sets forth the components of interest expense:

| (In millions)                                | Three Months Ended |        |   |
|--|--------------------|--------|---|
|  | September 30,      |        |   |
|  | 2013               | 2012   |   |
| Amortization of convertible debt             | \$1.0              | \$0.8  |   |
| Amortization of deferred financing fees      | 1.3                | 0.7    |   |
| Interest related to uncertain tax provisions | —                  | (0.2   | ) |
| Non-Cash Interest Expense                    | 2.3                | 1.3    |   |
| Cash Interest Expense                        | 19.0               | 11.4   |   |
|  | \$21.3             | \$12.7 |   |

The Company recorded a loss for the third quarter of 2013 of \$2.3 million, resulting from the sale and complete divestiture of its EECOL Electric Argentina operations. EECOL Electric Argentina was acquired in 2012 as a subsidiary of EECOL.

Income tax expense totaled \$30.9 million in the third quarter of 2013 compared to \$27.0 million in last year's comparable quarter, and the effective tax rate was 30.9% compared to 29.9% in the same quarter in 2012. The increase in the effective tax rate is primarily due to the continuing tax impact of the first quarter ArcelorMittal litigation recovery and the related shift in geographic mix of income from lower tax rate foreign jurisdictions to the U.S.

For the third quarter of 2013, net income increased by \$5.7 million to \$69.1 million compared to \$63.4 million in the third quarter of 2012.

A net loss of less than \$0.1 million was attributable to the noncontrolling interest for the third quarter of 2013 and 2012.

Net income and diluted earnings per share attributable to WESCO International was \$69.2 million and \$1.32 per share, respectively, for the third quarter of 2013, compared with \$63.4 million and \$1.25 per share, respectively, for the third quarter of 2012.

Nine Months Ended September 30, 2013 versus Nine Months Ended September 30, 2012

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

|  | Nine Months Ended<br>September 30, |         |   |
|--|------------------------------------|---------|---|
|  | 2013                               | 2012    |   |
| Net sales  | 100.0                              | % 100.0 | % |
| Cost of goods sold                                   | 79.2                               | % 79.9  | % |
| Selling, general and administrative expenses         | 13.3                               | % 13.9  | % |
| Depreciation and amortization                        | 0.9                                | % 0.5   | % |
| Income from operations                               | 6.6                                | % 5.7   | % |
| Interest expense                                     | 1.2                                | % 0.7   | % |
| Income before income taxes                           | 5.4                                | % 5.0   | % |
| Provision for income taxes                           | 1.5                                | % 1.5   | % |
| Net income attributable to WESCO International, Inc. | 3.9                                | % 3.5   | % |

Net sales in the first nine months of 2013 totaled \$5.6 billion versus \$4.9 billion in the comparable period for 2012, an increase of \$698.3 million, or 14.2%, over the same period last year. Acquisitions positively impacted sales by 14.9%, organic sales decreased 0.4%, and foreign exchange negatively impacted sales by 0.3%.

The following table sets forth normalized organic sales growth:

| Normalized Organic Sales:                | Nine Months Ended<br>September 30, |          |    |
|--|------------------------------------|----------|----|
|  | 2013                               | 2012     |    |
| Change in net sales                      | 14.2                               | % 8.8    | %  |
| Less: Impact from acquisitions           | 14.9                               | % 2.9    | %  |
| Less: Impact from foreign exchange rates | (0.3)                              | )% (0.5) | )% |
| Less: Impact from number of workdays     | —                                  | % —      | %  |
| Normalized organic sales growth          | (0.4)                              | )% 6.4   | %  |

Cost of goods sold for the first nine months of 2013 was \$4.5 billion versus \$3.9 billion for the comparable period in 2012, and cost of goods sold as a percentage of net sales was 79.2% in 2013 and 79.9% in 2012. The decrease in the cost of goods sold percentage was due to the positive margin impact from the Company's EECOL, Conney and Trydor acquisitions.

SG&A expenses in the first nine months of 2013 totaled \$748.2 million versus \$685.1 million in last year's comparable period. As a percentage of net sales, SG&A expenses were 13.3% in the first nine months of 2013 compared to 13.9% in the first nine months of 2012. First quarter 2013 SG&A expenses include a \$36.1 million favorable impact from the recognition of insurance coverage for a litigation-related charge recorded in the fourth quarter of 2012. Excluding the impact of this favorable item, SG&A expenses were \$784.3 million, or 13.9% of sales. The increase in SG&A expenses was primarily the result of the EECOL, Conney, and Trydor acquisitions.

SG&A payroll expenses for the first nine months of 2013 of \$553.3 million increased by \$61.6 million compared to the same period in 2012. The increase in payroll expenses was primarily due to an increase in salaries and wages of \$55.2 million and benefit costs of \$6.8 million, partially offset by a decrease in commissions and incentives of \$0.5 million. These increases are primarily due to the EECOL, Conney and Trydor acquisitions.



Depreciation and amortization for the first nine months of 2013 was \$50.7 million versus \$26.4 million in last year's comparable period. The increase in depreciation and amortization is primarily due to the amortization of intangible assets from the acquisition of EECOL, Conney and Trydor in 2012. Amortization of intangible assets of EECOL, Conney and Trydor totaled \$20.2 million for the nine months ended September 30, 2013.

Interest expense totaled \$65.0 million for the first nine months of 2013 versus \$33.1 million in last year's comparable period, an increase of 96.4%. The following table sets forth the components of interest expense:

| (In millions)                                | Nine Months Ended     |        |
|--|-----------------------|--------|
|  | September 30,<br>2013 | 2012   |
| Amortization of convertible debt             | \$3.2                 | \$2.2  |
| Amortization of deferred financing fees      | 3.7                   | 1.9    |
| Interest related to uncertain tax provisions | (0.2                  | ) (3.3 |
| Non-Cash Interest Expense                    | 6.7                   | 0.8    |
| Cash Interest Expense                        | 58.3                  | 32.3   |
|  | \$65.0                | \$33.1 |

The Company recorded a loss for the first nine months of 2013 of \$2.3 million, resulting from the sale and complete divestiture of its EECOL Electric Argentina operations. EECOL Electric Argentina was acquired in 2012 as a subsidiary of EECOL.

Income tax expense totaled \$84.6 million in the first nine months of 2013 compared to \$74.3 million in the first nine months of 2012, and the effective tax rate was 27.9% compared to 29.8% in the same period in 2012. The decrease in the effective tax rate is primarily due to the benefits resulting from the tax effect of intercompany financing.

For the first nine months of 2013, net income increased by \$43.3 million to \$218.6 million compared to \$175.3 million in the first nine months of 2012.

Net income attributable to the noncontrolling interest was \$0.1 million for the first nine months of 2013. Net loss attributable to the noncontrolling interest was less than \$0.1 million for the first nine months of 2012.

Net income and diluted earnings per share attributable to WESCO International was \$218.4 million and \$4.17 per share, respectively, for the first nine months of 2013, compared with \$175.3 million and \$3.43 per share, respectively, for the first nine months of 2012.

#### Liquidity and Capital Resources

Total assets were \$4.7 billion and \$4.6 billion at September 30, 2013 and December 31, 2012, respectively. Total liabilities were \$2.9 billion at September 30, 2013 compared to \$3.1 billion at December 31, 2012. Stockholders' equity increased by 11.9% to \$1.7 billion at September 30, 2013, compared to \$1.6 billion at December 31, 2012, primarily as a result of net income of \$218.6 million partially offset by foreign currency translation adjustments of \$43.2 million.

Our liquidity needs generally arise from fluctuations in our working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2013, we had \$477.2 million in available borrowing capacity under our Revolving Credit Facility, which combined with our invested cash of \$68.8 million, provided liquidity of \$546.0 million. Invested cash included in our determination of liquidity represents cash deposited in interest bearing accounts. We believe cash provided by operations and financing activities will be adequate to cover our current operational and business needs. In addition, the Company regularly reviews its mix of fixed and variable rate debt, and the Company may, from time to time, issue or retire borrowings, including through refinancings, in an effort to mitigate the impact of interest rate fluctuations and to maintain a cost-effective capital structure consistent with its anticipated capital requirements. In the near term, the Company may refinance a portion of the borrowings under its term loan facility. At September 30, 2013, approximately 20% of the Company's debt portfolio was

comprised of fixed rate debt.

We communicate on a regular basis with our lenders regarding our financial and working capital performance, liquidity position and financial leverage. We are in compliance with all covenants and restrictions contained in our debt agreements as of

22

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September 30, 2013. Our financial leverage ratio as of September 30, 2013 and December 31, 2012 was 3.6 and 4.7, respectively.

The following table sets forth the Company's financial leverage ratio as of September 30, 2013 and December 31, 2012:

| Twelve months ended September 30,<br>(Dollar amounts in millions) | 2013                  | 2012                 |
|---|-----------------------|----------------------|
| Income from operations  | \$420.7               | \$332.9              |
| Add: ArcelorMittal litigation charge                              | —                     | 36.1                 |
| Depreciation and amortization                                     | 61.8                  | 37.6                 |
| Adjusted EBITDA   | \$482.5               | \$406.6              |
|   | September 30,<br>2013 | December 31,<br>2012 |
| Current debt  | \$42.0                | \$39.8               |
| Long-term debt  | 1,535.5               | 1,695.4              |
| Debt discount related to convertible debentures                   | 180.3                 | 183.6                |
| Total debt including debt discount                                | \$1,757.8             | \$1,918.8            |
| Financial leverage ratio  | 3.6                   | 4.7                  |

Note: Financial leverage is provided by the Company as an indicator of capital structure position. Financial leverage is calculated by dividing total debt, including debt discount, by Adjusted EBITDA. Adjusted EBITDA is defined as the trailing twelve months earnings before interest, taxes, depreciation and amortization, excluding the ArcelorMittal litigation charge.

At September 30, 2013, we had cash and cash equivalents totaling \$98.6 million, of which \$58.8 million was held by foreign subsidiaries. The cash held by some of our foreign subsidiaries could be subject to additional U.S. income taxes if repatriated. We believe that we are able to maintain a sufficient level of liquidity for our domestic operations and commitments without repatriation of the cash held by these foreign subsidiaries.

We did not note any conditions or events during the third quarter of 2013 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 2013. 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 working capital as we experience sales growth and maintaining ample liquidity and credit availability. We believe our balance sheet and ability to generate ample cash flow provides us with a durable business model and should allow us to fund expansion needs and growth initiatives.

#### Cash Flow

**Operating Activities.** Cash provided by operating activities for the first nine months of 2013 totaled \$179.7 million, compared with \$189.7 million of cash generated for the first nine months of 2012. Cash provided by operating activities included net income of \$218.6 million and adjustments to net income totaling \$102.2 million. Other sources of cash in 2013 were generated from an increase in accounts payable of \$50.1 million due to the increase in purchasing activity, and an increase in accrued income taxes of \$0.9 million. Primary uses of cash in 2013 included: \$91.3 million for the increase in trade receivables, resulting from the increase in sales; \$32.6 million for the increase in other receivables; \$25.8 million for the decrease in other current and noncurrent liabilities, which included a \$21.1 million non-recurring contribution to the Company's defined benefit plan; \$24.9 million for the decrease in accrued payroll and benefit costs resulting primarily from the payment of the 2012 management incentive compensation; \$11.7 million for the increase in inventory; and \$5.9 million for the increase in prepaid expenses and other current assets.

Cash provided by operating activities for the first nine months of 2012 totaled \$189.7 million which included net income of \$175.3 million and adjustments to net income totaling \$55.8 million. Other sources of cash in 2012 were generated from an increase in accounts payable of \$38.5 million due to the increase in purchasing activity; \$13.9



million for the increase in other current and noncurrent liabilities; and \$4.0 million for the increase in accrued income taxes. Primary uses of cash in 2012 included: \$60.6 million for the increase in trade receivables, resulting from the increase in sales; \$16.0 million for the increase in inventory; \$15.4 million for the decrease in accrued payroll and benefit costs resulting from the payment of the 2011 management incentive compensation and 401(k) discretionary contribution; \$3.4 million for the increase in other accounts receivable; and \$2.3 million for the increase in prepaid expenses and other current assets.

**Investing Activities.** Net cash used by investing activities for the first nine months of 2013 was \$11.2 million, compared with \$220.5 million of net cash used during the first nine months of 2012. Included in the first nine months of 2012 were payments of \$201.1 million related to the acquisition of RS Electronics, Trydor and Conney. Capital expenditures were \$20.5 million and \$19.5 million in the first nine months of 2013 and 2012, respectively.

**Financing Activities.** Net cash used in financing activities for the first nine months of 2013 was \$154.5 million. Net cash provided by financing activities for the first nine months of 2012 was \$74.4 million. During the first nine months of 2013, borrowings and repayments of \$669.8 million and \$828.3 million, respectively, were made to our Revolving Credit Facility. Borrowings and repayments of \$89.7 million and \$34.7 million respectively, were applied to our Receivables Facility, and there were repayments of \$26.4 million which extinguished our mortgage financing facility, and repayments of \$26.2 million were applied to our Term Loan Facility. Financing activities in 2013 also included borrowings and repayments on our various international lines of credit of approximately \$43.0 million and \$33.8 million, respectively. During the first nine months of 2012, borrowings and repayments of long-term debt of \$413.2 million and \$414.8 million, respectively, were made to our Revolving Credit Facility. Borrowings and repayments of \$327.2 million and \$275.0 million, respectively, were applied to our Receivables Facility, and there were repayments of \$1.3 million to our mortgage financing facility. Financing activities in 2012 also included borrowings on our various international lines of credit of approximately \$21.4 million.

#### **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 2012 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 was approximately 0% of our sales revenue in the three and nine months ended September 30, 2013. Historically, price changes from suppliers have been consistent with inflation and have not had a material impact on the results of operations.

#### **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 from this pattern.

#### **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,” “intend,” “expects,” “projects,” “will” and similar expressions may identify forward-looking statements, although not all forward-looking statements contain such words. Such statements including, but not limited to, our statements regarding business strategy, growth strategy, competitive strengths, productivity and profitability enhancement, competition, new product and service introductions and liquidity and capital resources are based on management’s beliefs, as well as on assumptions made by and information currently available to, management, and involve various risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward-looking statement made by us or on our behalf. In light of these risks and uncertainties, there can be no assurance that the forward-looking information will in fact prove to be accurate. Certain of these risks are set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, 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.

24

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Item 3. Quantitative and Qualitative Disclosures about Market Risks

There have not been any material changes to our exposures to market risk during the quarter ended September 30, 2013 that would require an update to the disclosures provided in our 2012 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the third quarter of 2013, 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. In making this assessment of changes in internal control over financial reporting as of September 30, 2013, management has excluded EECOL, a company acquired during the fourth quarter of 2012. Management is currently assessing the control environment of this acquisition. Total assets and total revenue of EECOL for the three month period ended September 30, 2013 represent 29.8% and 12.0%, respectively of the Company's consolidated assets and revenue for the same period.

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, WESCO is a defendant in a lawsuit filed in a state court in Indiana in which a customer, ArcelorMittal Indiana Harbor, Inc. ("AIH"), alleges that the Company sold defective products to AIH in 2004 that were supplied to the Company by others. The lawsuit sought monetary damages in the amount of approximately \$50 million. On February 14, 2013, the jury returned a verdict in favor of AIH and awarded damages in the amount of approximately \$36.1 million, and judgment was entered on the jury's verdict. The Company disputes this outcome and filed a post-trial motion challenging the verdict alleging various errors that occurred during trial. The Company received letters from its insurers confirming insurance coverage of the matter and recorded a receivable in the quarter ended March 31, 2013 in an amount equal to the previously recorded liability. AIH also filed a post-trial motion asking the court to award additional amounts to AIH, including prejudgment and post-judgment interest. The Court denied the Company's post-trial motion on June 28, 2013 and granted in part AIH's motion, awarding prejudgment interest in the amount of \$3.9 million and ordering post-judgment interest to accrue on the entire judgment at 8% per annum. In the quarter ended June 30, 2013, the Company received letters from its insurers confirming insurance coverage of all prejudgment and post-judgment interest related to the matter, and recorded a liability and a corresponding receivable in the amount of \$4.7 million for all interest accrued in connection with this matter. Final judgment was entered by the court on July 16, 2013, and the Company is appealing the judgment. The Company has recorded an additional liability and a corresponding receivable in the amount of \$0.8 million for post-judgment interest accrued in connection with this matter during the quarter ended September 30, 2013. The judgment may increase or decrease based on the outcome of the appellate proceedings that cannot be predicted with certainty.

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

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.

October 29, 2013

By: /s/ Kenneth S. Parks  
Kenneth S. Parks  
Vice President and Chief Financial Officer