

WESCO INTERNATIONAL INC  
Form 10-Q  
November 03, 2014

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, 2014

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)

(412) 454-2200

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or 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 30, 2014, WESCO International, Inc. had 44,481,394 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>	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of September 30, 2014 (unaudited) and December 31, 2013 (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013 (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 (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>26</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
<b>PART II - OTHER INFORMATION</b>	
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 6. Exhibits</u>	<u>27</u>
<u>Signatures and Certifications</u>	<u>28</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, 2014	December 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 110,368	\$ 123,725
Trade accounts receivable, net of allowance for doubtful accounts of \$23,069 and \$19,309 in 2014 and 2013, respectively	1,218,759	1,045,054
Other accounts receivable	131,724	130,043
Inventories, net	846,166	787,324
Current deferred income taxes	35,031	44,691
Prepaid expenses and other current assets	107,989	74,778
Total current assets	2,450,037	2,205,615
Property, buildings and equipment, net of accumulated depreciation of \$229,041 and \$213,758 in 2014 and 2013, respectively	191,393	198,654
Intangible assets, net	452,140	439,167
Goodwill	1,759,833	1,734,391
Other assets	52,065	71,066
Total assets	\$4,905,468	\$4,648,893
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$842,779	\$735,097
Accrued payroll and benefit costs	63,892	56,548
Short-term debt	43,006	37,551
Current portion of long-term debt	2,393	2,510
Other current liabilities	174,611	219,957
Total current liabilities	1,126,681	1,051,663
Long-term debt, net of discount of \$171,547 and \$174,686 in 2014 and 2013, respectively	1,471,774	1,447,634
Deferred income taxes	349,827	341,334
Other noncurrent liabilities	48,541	43,471
Total liabilities	\$2,996,823	\$2,884,102
Commitments and contingencies (Note 7)		
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, 58,388,696 and 58,107,304 shares issued and 44,480,660 and 44,267,460 shares outstanding in 2014 and 2013, respectively	584	581
Class B nonvoting convertible common stock, \$.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2014 and 2013, respectively	43	43
Additional capital	1,098,458	1,082,772
Retained earnings	1,569,531	1,368,386
Treasury stock, at cost; 18,247,467 and 18,179,275 shares in 2014 and 2013, respectively	(616,075)	(610,430)
Accumulated other comprehensive income	(143,814)	(76,543)

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Total WESCO International stockholders' equity	1,908,727	1,764,809
Noncontrolling interest	(82	) (18
Total stockholders' equity	1,908,645	1,764,791
Total liabilities and stockholders' equity	\$4,905,468	\$4,648,893

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 per share data	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net sales	\$2,078,150	\$1,931,260	\$5,894,141	\$5,633,271
Cost of goods sold (excluding depreciation and amortization below)	1,655,787	1,535,609	4,685,257	4,463,991
Selling, general and administrative expenses	271,697	255,202	815,869	748,164
Depreciation and amortization	17,418	16,803	50,976	50,673
Income from operations	133,248	123,646	342,039	370,443
Interest expense, net	20,798	21,304	61,823	64,999
Loss on sale of Argentina business	—	2,315	—	2,315
Income before income taxes	112,450	100,027	280,216	303,129
Provision for income taxes	31,632	30,909	78,757	84,567
Net income	80,818	69,118	201,459	218,562
Less: Net income (loss) attributable to noncontrolling interest	2	(44	) (64	) 126
Net income attributable to WESCO International, Inc.	\$80,816	\$69,162	\$201,523	\$218,436
Comprehensive income:				
Foreign currency translation adjustment	(63,794	) 24,619	(67,271	) (43,211
Comprehensive income attributable to WESCO International, Inc.	\$17,022	\$93,781	\$134,252	\$175,225
Earnings per share attributable to WESCO International, Inc.				
Basic	\$1.82	\$1.57	\$4.54	\$4.95
Diluted	\$1.52	\$1.32	\$3.78	\$4.17

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 September 30,	
Amounts in thousands	2014	2013
<b>Operating Activities:</b>		
Net income	\$201,459	\$218,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,976	50,673
Deferred income taxes	17,847	36,486
Other operating activities, net	9,455	15,019
Changes in assets and liabilities:		
Trade receivables, net	(174,967)	(91,301)
Other accounts receivable	(2,779)	(32,580)
Inventories, net	(54,053)	(11,743)
Prepaid expenses and other current assets	(34,906)	(5,881)
Accounts payable	106,886	50,146
Other current and noncurrent liabilities	19,902	(49,712)
Net cash provided by operating activities	139,820	179,669
<b>Investing Activities:</b>		
Acquisition payments, net of cash acquired	(138,805)	—
Capital expenditures	(16,036)	(20,472)
Other investing activities	5,444	9,276
Net cash used in investing activities	(149,397)	(11,196)
<b>Financing Activities:</b>		
Proceeds from issuance of short-term debt	49,727	42,972
Repayments of short-term debt	(42,168)	(33,808)
Proceeds from issuance of long-term debt	912,146	759,470
Repayments of long-term debt	(885,408)	(915,562)
Repayment of deferred acquisition payable	(29,395)	—
Other financing activities, net	(9,312)	(7,592)
Net cash used in financing activities	(4,410)	(154,520)
Effect of exchange rate changes on cash and cash equivalents	630	(1,477)
Net change in cash and cash equivalents	(13,357)	12,476
Cash and cash equivalents at the beginning of period	123,725	86,099
Cash and cash equivalents at the end of period	\$110,368	\$98,575

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 manufacturers' ("OEM") products, construction materials, and advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 75,000 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 2013 Annual Report on Form 10-K filed with the SEC. The December 31, 2013 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, 2014, the unaudited condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2014 and 2013, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013, 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.

Revision

Certain amounts in the Company's consolidated balance sheet as of December 31, 2013, as presented herein, have been revised to appropriately present current and non-current deferred tax balances as well as current taxes refundable/payable in accordance with ASC 740, "Income Taxes". Specifically, other assets and deferred income tax liabilities each increased by \$24.7 million at December 31, 2013. Additionally, prepaid expenses and other current assets increased by \$7.1 million with a corresponding increase to other current liabilities of \$7.1 million at December 31, 2013. The Company also revised its consolidated balance sheet as of December 31, 2012, which is not presented herein, for the same items. Deferred income tax assets and liabilities each increased by \$16.2 million to \$17.5 million and \$316.7 million, respectively, at December 31, 2012. Income taxes receivable and other current liabilities each increased by \$6.0 million to \$14.8 million and \$140.6 million, respectively, at December 31, 2012.

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, 2014, the carrying value of WESCO's 6.0% Convertible Senior Debentures due 2029 (the "2029 Debentures") was \$176.7 million and the fair value was approximately \$1.0 billion. At December 31, 2013, the carrying value

of WESCO's 2029 Debentures was \$174.1 million and the fair value was approximately \$1.1 billion. 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.

#### Recently Issued Accounting Pronouncements

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 assets 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 adopted this guidance in 2014. Adoption of this guidance did not have a material impact on WESCO's financial position, results of operations or cash flows.

In May 2014, the FASB and International Accounting Standards Board ("IASB") issued a converged final standard on the recognition of revenue from contracts with customers. This updated guidance provides a framework for addressing revenue recognition issues and replaces almost all existing revenue recognition guidance in current U.S. generally accepted accounting principles. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. This guidance is effective for interim and annual periods beginning after December 15, 2016. Management has not yet evaluated the future impact of this guidance on WESCO's financial position, results of operations or cash flows.

### 3. ACQUISITIONS

The following table sets forth the consideration paid for acquisitions:

Amounts in thousands	Nine Months Ended September 30, 2014
Fair value of assets acquired	\$ 153,430
Fair value of liabilities assumed	14,625
Cash paid for acquisitions	\$ 138,805

The fair values of assets acquired and liabilities assumed were based upon preliminary calculations and valuations. Our estimates and assumptions for our preliminary purchase price allocation are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the respective acquisition dates).

#### 2014 Acquisitions of LaPrairie, Inc., Hazmasters, Inc., and Hi-Line Utility Supply

On February 3, 2014, WESCO Distribution, Inc., through its wholly-owned Canadian subsidiary, completed the acquisition of LaPrairie, Inc. ("LaPrairie"), a wholesale distributor of electrical products that services the transmission, distribution, and substation needs of utilities and utility contractors with approximately \$30 million in annual sales from a single location in Newmarket, Ontario. WESCO funded the purchase price paid at closing with cash. The purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. The preliminary fair value of intangibles was determined by management and the allocation resulted in intangible assets of \$11.0 million and goodwill of \$8.9 million. Management believes the majority of goodwill will be deductible for tax purposes.

On March 17, 2014, WESCO Distribution, Inc., through its wholly-owned Canadian subsidiary, completed the acquisition of Hazmasters, Inc. ("Hazmasters"), a leading independent Canadian distributor of safety products servicing customers in the industrial, construction, commercial, institution, and government markets with approximately \$80 million in annual sales from 14 branches across Canada. WESCO funded the purchase price paid at closing with cash and borrowings under the Revolving Credit Facility. The purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. The preliminary fair

value of intangibles was estimated by management and the allocation resulted in intangible assets of \$28.1 million and goodwill of \$29.1 million which is not deductible for tax purposes.

On June 11, 2014, WESCO Distribution, Inc., completed the acquisition of Hi-Line Utility Supply ("Hi-Line"), a provider of utility MRO and safety products, as well as rubber goods testing and certification services, with approximately \$30 million in annual sales from locations in Chicago, Illinois and Millbury, Massachusetts. WESCO funded the purchase price paid at closing with cash and borrowings under our variable rate credit facilities. The purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. The preliminary fair value of intangibles

was estimated by management and the allocation resulted in intangible assets of \$16.5 million and goodwill of \$21.6 million. Management believes the majority of goodwill will be deductible for tax purposes.

For all acquisitions made in the first nine months of 2014, the intangible assets include customer relationships of \$40.0 million amortized over 2 to 12 years, supplier relationships of \$3.2 million amortized over 10 years, trademarks of \$12.1 million, and other intangibles of \$0.3 million as of September 30, 2014. Certain trademarks have been assigned an indefinite life while others are amortized over 5 years. No residual value is estimated for the intangible assets being amortized.

#### 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, 2014 and 2013, WESCO granted the following stock-settled stock appreciation rights, restricted stock units and performance-based awards at the following weighted average fair values and assumptions:

	Three Months Ended		Nine Months Ended		
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013	
Stock-settled appreciation rights granted	—	900	274,508	252,473	
Weighted average fair value	\$—	\$32.05	\$30.64	\$31.33	
Restricted stock units granted	611	—	63,117	69,393	
Weighted average fair value	\$81.88	\$—	\$85.32	\$72.15	
Performance-based awards granted	—	—	44,046	48,058	
Weighted average fair value	\$—	\$—	\$86.65	\$78.21	
Risk free interest rate	—	% 1.6	% 1.5	% 0.9	%
Expected life (in years)	0	5	5	5	
Expected volatility	—	% 48	% 39	% 50	%

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, 2014:

	Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2013	2,715,651	\$45.93		
Granted	274,508	85.35		
Exercised	(452,795)	) 40.80		
Forfeited	(20,375)	) 70.86		
Outstanding at September 30, 2014	2,516,989	50.95	5.5	\$70,664
Exercisable at September 30, 2014	2,013,895	\$44.18	4.7	\$68,633



The following table sets forth a summary of restricted stock units and related information for the nine months ended September 30, 2014:

	Awards	Weighted Average Fair Value
Unvested at December 31, 2013	184,746	\$66.08
Granted	63,117	85.32
Vested	(51,287	) 60.85
Forfeited	(9,620	) 68.90
Unvested at September 30, 2014	186,956	\$73.86

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, 2014:

	Awards	Weighted Average Fair Value
Unvested at December 31, 2013	92,484	\$76.98
Granted	44,046	86.65
Vested	—	—
Forfeited	(6,526	) 77.87
Unvested at September 30, 2014	130,004	\$80.21

The performance-based awards in the table above include 65,002 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, 2014 was estimated using the following weighted-average assumptions:

#### Weighted Average Assumptions

Grant date share price	\$86.65	
WESCO expected volatility	35.4	%
Peer group median volatility	28.7	%
Risk-free interest rate	0.62	%
Correlation	103.1	%

Vesting of the remaining 65,002 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 \$2.5 million and \$3.7 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2014 and 2013, respectively. WESCO recognized \$11.0 million and \$12.5 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, there was \$20.9 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately \$3.8 million is expected to be recognized over the remainder of 2014, \$10.6 million in 2015, \$5.8 million in 2016 and

\$0.7 million in 2017.

8

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During the nine months ended September 30, 2014 and 2013, the total intrinsic value of awards exercised was \$24.2 million and \$14.1 million, respectively. The total amount of cash received from the exercise of options was \$0.8 million for the nine months ended September 30, 2014 and less than \$0.1 million for the nine months ended September 30, 2013. The tax benefit associated with the exercise of awards for the nine months ended September 30, 2014 and 2013 totaled \$9.1 million and \$4.8 million, respectively, and was recorded as an increase to additional paid-in 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.

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

Amounts in thousands, except per share data	Three Months Ended September 30,	
	2014	2013
Net income attributable to WESCO International, Inc.	\$80,816	\$69,162
Weighted average common shares outstanding used in computing basic earnings per share	44,475	44,180
Common shares issuable upon exercise of dilutive equity awards	990	1,067
Common shares issuable from contingently convertible debentures (see below for basis of calculation)	7,778	7,299
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	53,243	52,546
Earnings per share attributable to WESCO International, Inc.		
Basic	\$1.82	\$1.57
Diluted	\$1.52	\$1.32
Amounts in thousands, except per share data	Nine Months Ended September 30,	
	2014	2013
Net income attributable to WESCO International, Inc.	\$201,523	\$218,436
Weighted average common shares outstanding used in computing basic earnings per share	44,425	44,127
Common shares issuable upon exercise of dilutive equity awards	1,036	1,088
Common shares issuable from contingently convertible debentures (see below for basis of calculation)	7,901	7,214
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	53,362	52,429
Earnings per share attributable to WESCO International, Inc.		
Basic	\$4.54	\$4.95
Diluted	\$3.78	\$4.17

For the three and nine months ended September 30, 2014, the computation of diluted earnings per share attributable to WESCO International, Inc. excluded approximately 0.3 million and 0.5 million stock-settled stock appreciation rights at weighted average exercise prices of \$84.47 per share and \$79.29 per share, respectively. 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. 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 11,948,374 shares for the 2029 Debentures. For the three and nine months ended September 30, 2014, the effect of the 2029 Debentures on diluted earnings per share attributable to WESCO International, Inc. was a decrease of \$0.26 and \$0.65, respectively. 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.

#### 6. 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, 2014 and 2013, WESCO incurred charges of \$23.3 million and \$25.7 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, 2014 and 2013:

Amounts in thousands	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Service cost	\$912	\$996	\$2,712	\$3,049
Interest cost	1,172	1,117	3,486	3,422
Expected return on plan assets	(1,380)	(1,173)	(4,103)	(3,081)
Net periodic benefit cost	\$704	\$940	\$2,095	\$3,390

During the three and nine month periods ended September 30, 2014, the Company made cash contributions of \$0.5 million and \$1.7 million, respectively, to its defined benefit plans. During the three and nine month periods ended September 30, 2013, the Company made cash contributions of \$22.1 million and \$23.9 million, respectively, to its defined benefit plans.

#### 7. 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. As a result, the Company recorded a \$36.1 million charge to selling, general and administrative expenses in 2012. 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. Final judgment was entered by the court on July 16, 2013, and the Company is appealing the judgment. As of September 30, 2014, the Company recorded a liability and a corresponding receivable in the amount of \$8.7 million

for all prejudgment and post-judgment interest accrued in connection with this matter. The judgment may increase or decrease based on the outcome of the appellate proceedings that cannot be predicted with certainty.

WESCO is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment (the transfer of property to the state) of unclaimed or abandoned funds, and is subject to audit and examination for

compliance with these requirements. The Company is currently being examined by a third party auditor for compliance with unclaimed property laws and has accrued an amount based on the facts currently known to the Company.

In October 2014, WESCO was notified that the New York County District Attorney's Office is conducting a criminal investigation involving minority and disadvantaged business contracting practices in the construction industry in New York City and that various contractors, minority and disadvantaged business firms, and their material suppliers, including the Company, are a part of this investigation. The Company has commenced an internal review of this matter and intends to cooperate with the government investigation. The Company cannot predict the outcome or impact of the matter at this time, but could be subject to fines, penalties or other adverse consequences. Based on the facts currently known to the Company, it cannot reasonably estimate a range of exposure to potential liability at this time, but does not believe that this matter is likely to have a material effect on the Company, its financial condition or liquidity.

#### 8. INCOME TAXES

The effective tax rate for the three and nine months ended September 30, 2014 was 28.1%. The effective tax rate for the three and nine months ended September 30, 2013 was 30.9% and 27.9%, respectively. WESCO's effective tax rate is lower than the federal statutory rate of 35% primarily due to benefits resulting from the tax effect of intercompany financing and lower rates on foreign earnings, which are partially offset by nondeductible expenses and state taxes. The liabilities related to uncertain tax positions increased in the quarter ended September 30, 2014 by \$4.8 million, net. This increase is primarily related to temporary items, which did not have a material impact on the effective tax rate for the three and nine months ended September 30, 2014.

#### 9. 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.

WESCO Distribution has outstanding \$500 million in aggregate principal amount of 5.375% Senior Notes due 2021 (the "2021 Notes"). The 2021 Notes are unsecured senior obligations of WESCO Distribution and are guaranteed on a senior unsecured basis by WESCO International.

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)

Amounts in thousands	September 30, 2014				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	\$—	\$37,639	\$ 72,729	\$—	\$ 110,368
Trade accounts receivable, net	—	—	1,218,759	—	1,218,759
Inventories, net	—	380,584	465,582	—	846,166
Other current assets	18	172,936	145,653	(43,863 )	274,744
Total current assets	18	591,159	1,902,723	(43,863 )	2,450,037
Intercompany receivables, net	—	—	1,833,480	(1,833,480 )	—
Property, buildings and equipment, net	—	57,966	133,427	—	191,393
Intangible assets, net	—	4,901	447,239	—	452,140
Goodwill	—	246,771	1,513,062	—	1,759,833
Investments in affiliates	3,284,749	3,820,458	—	(7,105,207 )	—
Other noncurrent assets	4,152	13,586	34,327	—	52,065
Total assets	\$3,288,919	\$4,734,841	\$ 5,864,258	\$(8,982,550)	\$4,905,468
Accounts payable	\$—	\$482,892	\$ 359,887	\$—	\$842,779
Short-term debt	—	—	43,006	—	43,006
Other current liabilities	11,533	114,565	158,661	(43,863 )	240,896
Total current liabilities	11,533	597,457	561,554	(43,863 )	1,126,681
Intercompany payables, net	1,174,355	659,125	—	(1,833,480 )	—
Long-term debt	176,691	680,618	614,465	—	1,471,774
Other noncurrent liabilities	17,613	234,121	146,634	—	398,368
Total WESCO International stockholders' equity	1,908,727	2,563,520	4,541,687	(7,105,207 )	1,908,727
Noncontrolling interest	—	—	(82 )	—	(82 )
Total liabilities and stockholders' equity	\$3,288,919	\$4,734,841	\$ 5,864,258	\$(8,982,550)	\$4,905,468

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATING BALANCE SHEETS

(unaudited)

Amounts in thousands

December 31, 2013

	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	\$—	\$31,695	\$ 92,030	\$—	\$ 123,725
Trade accounts receivable, net	—	—	1,045,054	—	1,045,054
Inventories, net	—	351,242	436,082	—	787,324
Other current assets	22	166,540	127,439	(44,489 )	249,512
Total current assets	22	549,477	1,700,605	(44,489 )	2,205,615
Intercompany receivables, net	—	—	1,906,785	(1,906,785 )	—
Property, buildings and equipment, net	—	59,569	139,085	—	198,654
Intangible assets, net	—	5,404	433,763	—	439,167
Goodwill	—	246,125	1,488,266	—	1,734,391
Investments in affiliates	3,137,418	3,722,902	—	(6,860,320 )	—
Other noncurrent assets	4,361	15,627	51,078	—	71,066
Total assets	\$3,141,801	\$4,599,104	\$ 5,719,582	\$(8,811,594 )	\$4,648,893
Accounts payable	\$—	\$410,017	\$ 325,080	\$—	\$735,097
Short-term debt	—	—	37,551	—	37,551
Other current liabilities	11,920	114,894	196,690	(44,489 )	279,015
Total current liabilities	11,920	524,911	559,321	(44,489 )	1,051,663
Intercompany payables, net	1,168,507	738,278	—	(1,906,785 )	—
Long-term debt	174,149	675,424	598,061	—	1,447,634
Other noncurrent liabilities	22,416	220,650	141,739	—	384,805
Total WESCO International stockholders' equity	1,764,809	2,439,841	4,420,479	(6,860,320 )	1,764,809
Noncontrolling interest	—	—	(18 )	—	(18 )
Total liabilities and stockholders' equity	\$3,141,801	\$4,599,104	\$ 5,719,582	\$(8,811,594 )	\$4,648,893

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

Amounts in thousands	Three Months Ended September 30, 2014				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	\$—	\$932,948	\$ 1,174,935	\$ (29,733 )	\$ 2,078,150
Cost of goods sold	—	747,219	938,301	(29,733 )	1,655,787
Selling, general and administrative expenses	—	141,924	129,773	—	271,697
Depreciation and amortization	—	4,670	12,748	—	17,418
Results of affiliates' operations	85,219	62,611	—	(147,830 )	—
Interest expense, net	6,123	18,765	(4,090 )	—	20,798
Provision for income taxes	(1,722 )	5,733	27,621	—	31,632
Net income	80,818	77,248	70,582	(147,830 )	80,818
Less: Net loss attributable to noncontrolling interest	—	—	2	—	2
Net income attributable to WESCO International, Inc.	\$80,818	\$77,248	\$ 70,580	\$ (147,830 )	\$80,816
Comprehensive income:					
Foreign currency translation adjustment	(63,794 )	(63,794 )	(63,794 )	127,588	(63,794 )
Comprehensive income attributable to WESCO International, Inc.	\$17,024	\$13,454	\$ 6,786	\$ (20,242 )	\$17,022

Amounts in thousands	Three Months Ended September 30, 2013				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating 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	69,118	65,595	66,220	(131,815 )	69,118
Less: Net income attributable to noncontrolling interest	—	—	(44 )	—	(44 )
Net income 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





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

Amounts in thousands	Nine Months Ended September 30, 2014				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	\$—	\$2,656,619	\$ 3,323,237	\$ (85,715 )	\$5,894,141
Cost of goods sold	—	2,126,743	2,644,229	(85,715 )	4,685,257
Selling, general and administrative expenses	2	423,371	392,496	—	815,869
Depreciation and amortization	—	14,284	36,692	—	50,976
Results of affiliates' operations	214,601	164,826	—	(379,427 )	—
Interest expense, net	18,277	55,854	(12,308 )	—	61,823
Provision for income taxes	(5,137 )	10,244	73,650	—	78,757
Net income	201,459	190,949	188,478	(379,427 )	201,459
Less: Net income attributable to noncontrolling interest	—	—	(64 )	—	(64 )
Net income attributable to WESCO International, Inc.	\$201,459	\$190,949	\$ 188,542	\$ (379,427 )	\$201,523
Comprehensive income:					
Foreign currency translation adjustment	(67,271 )	(67,271 )	(67,271 )	134,542	(67,271 )
Comprehensive income attributable to WESCO International, Inc.	\$134,188	\$123,678	\$ 121,271	\$ (244,885 )	\$134,252

Amounts in thousands	Nine Months Ended September 30, 2013				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating 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	231,482	157,726	—	(389,208 )	—
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	(4,997 )	34,617	54,947	—	84,567
Net income	218,562	208,794	180,414	(389,208 )	218,562
Less: Net income attributable to noncontrolling interest	—	—	126	—	126
Net income attributable to WESCO International, Inc.	\$218,562	\$208,794	\$ 180,288	\$ (389,208 )	\$218,436
Comprehensive income:					
Foreign currency translation adjustment	(43,211 )	(43,211 )	(43,211 )	86,422	(43,211 )
	\$175,351	\$165,583	\$ 137,077	\$ (302,786 )	\$175,225

Comprehensive income attributable to  
WESCO International, Inc.

15

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

(unaudited)

Amounts in thousands

Nine Months Ended September 30, 2014

	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash (used) provided by operating activities	\$ (5,202 )	\$ 68,291	\$ 76,731	\$ —	\$ 139,820
Investing activities:					
Capital expenditures	—	(10,811 )	(5,225 )	—	(16,036 )
Acquisition payments	—	(42,132 )	(96,673 )	—	(138,805 )
Other	—	(5,842 )	5,444	5,842	5,444
Net cash used in investing activities	—	(58,785 )	(96,454 )	5,842	(149,397 )
Financing activities:					
Borrowings	6,517	645,411	316,462	(6,517 )	961,873
Repayments	(675 )	(640,411 )	(316,560 )	675	(956,971 )
Other	(640 )	(8,562 )	(110 )	—	(9,312 )
Net cash provided (used) by financing activities	5,202	(3,562 )	(208 )	(5,842 )	(4,410 )
Effect of exchange rate changes on cash and cash equivalents	—	—	630	—	630
Net change in cash and cash equivalents	—	5,944	(19,301 )	—	(13,357 )
Cash and cash equivalents at the beginning of year	—	31,695	92,030	—	123,725
Cash and cash equivalents at the end of period	\$ —	\$ 37,639	\$ 72,729	\$ —	\$ 110,368



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

(unaudited)

Amounts in thousands

Nine Months Ended September 30, 2013

	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating 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	—	—	—	—	—
Other	—	(17,176 )	9,276	17,176	9,276
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

The Company revised its condensed consolidating balance sheet as of December 31, 2013 to properly reflect balance sheet positions of the Company's tax-paying entities and to conform with the current period's financial statement presentation. Specifically, other assets and deferred income taxes of non-guarantor subsidiaries each increased by \$24.7 million at December 31, 2013. Additionally, prepaid expenses and other current assets of non-guarantor subsidiaries increased by \$7.1 million, with a corresponding increase in other current liabilities of non-guarantor subsidiaries of \$7.1 million at December 31, 2013.

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.

## 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 2013 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, 2013, 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 75,000 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. The Company employs approximately 9,200 employees worldwide. We distribute over 1,000,000 products, grouped into six categories, from more than 25,000 suppliers.

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.

Our financial results for the first nine months of 2014 reflect an improving U.S. economy and solid performance in our Canadian and international markets. Net sales increased \$260.9 million, or 4.6%, over the same period last year. Cost of goods sold as a percentage of net sales was 79.5% and 79.2% for the first nine months of 2014 and 2013, respectively. Selling, general, and administrative ("SG&A") expenses as a percentage of net sales were 13.8% and 13.3% for the first nine months of 2014 and 2013, respectively. The increase in SG&A expenses as a percentage of net sales was primarily due to the \$36.1 million ArcelorMittal litigation recovery receivable recorded in the first quarter of 2013 related to a fourth quarter 2012 liability and charge for the same amount. Operating profit was \$342.0 million for the current nine month period, compared to \$370.4 million for the first nine months of 2013. Operating profit decreased primarily from the reduced SG&A expenses in the first quarter of 2013 due to recording the \$36.1 million receivable. Net income attributable to WESCO International for the nine months ended September 30, 2014 and 2013 was \$201.5 million and \$218.4 million, respectively.

### Cash Flow

We generated \$139.8 million in operating cash flow for the first nine months of 2014. Included in this amount was income from operations offset by an investment in working capital to support sales growth. Investing activities included acquisition payments of \$138.8 million. Financing activities consisted of borrowings and repayments of \$800.0 million and \$800.5 million, respectively, related to our revolving credit facility (the "Revolving Credit Facility"), borrowings and repayments of \$112.1 million and \$65.7 million, respectively, related to our accounts receivable securitization facility (the "Receivables Facility"), and repayments of \$19.2 million applied to the Company's term loan facility (the "Term Loan Facility"). Financing activities in 2014 also included borrowings and repayments on our various international lines of credit of approximately \$49.7 million and \$42.2 million, respectively. Financing

activities for the first nine months of 2014 also included repayment of \$29.4 million of cash that was obtained in connection with the December 14, 2012 acquisition of EECOL. Free cash flow for the first nine months of 2014 and 2013 was \$123.8 million and \$180.3 million, respectively.

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

Amounts in millions	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Free Cash Flow:				
Cash flow provided by operations	\$89.0	\$59.9	\$139.8	\$179.7
Less: Capital expenditures	(4.2	) (8.7	) (16.0	) (20.5
Add: Non-recurring pension contribution	—	21.1	—	21.1
Free cash flow	\$84.8	\$72.3	\$123.8	\$180.3

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 its 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, 2014, we had \$485.8 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, 2014, there were no significant changes to our critical accounting policies and estimates referenced in our 2013 Annual Report on Form 10-K.

#### Results of Operations

##### Third Quarter of 2014 versus Third Quarter of 2013

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

	Three Months Ended			
	September 30,			
	2014	2013		
Net sales	100.0	% 100.0		%
Cost of goods sold	79.7	79.5		
Selling, general and administrative expenses	13.1	13.2		
Depreciation and amortization	0.8	0.9		
Income from operations	6.4	6.4		
Interest expense	1.0	1.1		
Loss on sale of Argentina business	—	0.1		
Income before income taxes	5.4	5.2		
Provision for income taxes	1.5	1.6		
Net income attributable to WESCO International, Inc.	3.9	% 3.6		%

Net sales were \$2.1 billion for the third quarter of 2014, compared to \$1.9 billion for the third quarter of 2013, an increase of 7.6%. Organic sales increased 6.7%, acquisitions positively impacted sales by 1.8%, and foreign exchange negatively impacted sales by 0.9%. Sequentially, sales increased 3.6%, and organic sales increased 3.1%.





The following table sets forth normalized organic sales growth:

Normalized Organic Sales:	Three Months Ended			
	September 30,			
	2014		2013	
Change in net sales	7.6	%	16.6	%
Less: Impact from acquisitions	1.8	%	14.1	%
Less: Impact from foreign exchange rates	(0.9	)%	(0.7	)%
Less: Impact from number of workdays	—	%	1.6	%
Normalized organic sales growth	6.7	%	1.6	%

Note: 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. 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 2014 and 2013 was \$1.7 billion and \$1.5 billion, respectively, and was 79.7% and 79.5% as a percentage of net sales in 2014 and 2013, respectively. The increase in cost of goods sold was primarily due to a change in business mix and lower supplier volume rebates compared to last year's comparable quarter.

SG&A expenses in the third quarter of 2014 totaled \$271.7 million versus \$255.2 million in last year's comparable quarter. As a percentage of net sales, SG&A expenses were 13.1% in the third quarter of 2014 compared to 13.2% in the third quarter of 2013.

SG&A payroll expenses for the third quarter of 2014 of \$192.8 million increased by \$13.3 million compared to the same quarter in 2013. The increase in SG&A payroll expenses was primarily due to increases in salaries and wages of \$7.2 million and commissions and incentives of \$4.0 million.

Depreciation and amortization for the third quarter of 2014 and 2013 was \$17.4 million and \$16.8 million, respectively.

Interest expense totaled \$20.8 million for the third quarter of 2014 compared to \$21.3 million in last year's comparable quarter, a decrease of 2.4%. The following table sets forth the components of interest expense:

Amounts in millions	Three Months Ended	
	September 30,	
	2014	2013
Amortization of convertible debt discount	\$1.0	\$1.0
Amortization of deferred financing fees	1.1	1.3
Interest related to uncertain tax provisions	0.2	—
Non-Cash Interest Expense	2.3	2.3
Cash Interest Expense	18.5	19.0
	\$20.8	\$21.3

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 \$31.6 million in the third quarter of 2014 compared to \$30.9 million in last year's comparable quarter, and the effective tax rate was 28.1% compared to 30.9% in the same quarter in 2013. The

decrease in the effective tax rate is primarily due to the 2013 tax impact of the ArcelorMittal litigation recovery. For the third quarter of 2014, net income increased by \$11.7 million to \$80.8 million compared to \$69.1 million in the third quarter of 2013.

Net income of less than \$0.1 million was attributable to the noncontrolling interest for the third quarter of 2014, and net loss of less than \$0.1 million was attributable to the noncontrolling interest for the third quarter of 2013.

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Net income and diluted earnings per share attributable to WESCO International was \$80.8 million and \$1.52 per share, respectively, for the third quarter of 2014, compared with \$69.2 million and \$1.32 per share, respectively, for the third quarter of 2013.

Nine Months Ended September 30, 2014 versus Nine Months Ended September 30, 2013

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

	Nine Months Ended			
	September 30,			
	2014	2013		
Net sales	100.0	% 100.0	%	
Cost of goods sold	79.5	% 79.2	%	
Selling, general and administrative expenses	13.8	% 13.3	%	
Depreciation and amortization	0.9	% 0.9	%	
Income from operations	5.8	% 6.6	%	
Interest expense	1.0	% 1.2	%	
Income before income taxes	4.8	% 5.4	%	
Provision for income taxes	1.3	% 1.5	%	
Net income attributable to WESCO International, Inc.	3.5	% 3.9	%	

Net sales in the first nine months of 2014 totaled \$5.9 billion versus \$5.6 billion in the comparable period for 2013, an increase of \$260.9 million, or 4.6%, over the same period last year. Acquisitions positively impacted sales by 1.3%, organic sales increased 4.8%, and foreign exchange negatively impacted sales by 1.5%.

The following table sets forth normalized organic sales growth:

Normalized Organic Sales:	Nine Months Ended			
	September 30,			
	2014	2013		
Change in net sales	4.6	% 14.2	%	
Less: Impact from acquisitions	1.3	% 14.9	%	
Less: Impact from foreign exchange rates	(1.5)	)% (0.3	)%	
Less: Impact from number of workdays	—	% —	%	
Normalized organic sales growth	4.8	% (0.4	)%	

Cost of goods sold for the first nine months of 2014 was \$4.7 billion versus \$4.5 billion for the comparable period in 2013, and cost of goods sold as a percentage of net sales was 79.5% in 2014 and 79.2% in 2013. The increase in cost of goods sold was primarily due to lower supplier volume rebates and a change in business mix compared to the same period in 2013.

SG&A expenses in the first nine months of 2014 totaled \$815.9 million versus \$748.2 million in last year's comparable period. As a percentage of net sales, SG&A expenses were 13.8% in the first nine months of 2014 compared to 13.3% in the first nine months of 2013. 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 three 2014 acquisitions combined with higher employment levels and related costs.

SG&A payroll expenses for the first nine months of 2014 of \$573.7 million increased by \$20.4 million compared to the same period in 2013. The increase in payroll expenses was primarily due to increases in salaries and wages of \$19.8 million and commissions and incentives of \$2.8 million, partially offset by a decrease in benefit costs of \$2.8 million. The increases in salaries and wages and commissions and incentives is primarily due to the three 2014

acquisitions.

Depreciation and amortization for the first nine months of 2014 was \$51.0 million versus \$50.7 million in last year's comparable period.

21

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Interest expense totaled \$61.8 million for the first nine months of 2014 versus \$65.0 million in last year's comparable period, a decrease of 4.9%. The following table sets forth the components of interest expense:

Amounts in millions	Nine Months Ended	
	September 30,	
	2014	2013
Amortization of convertible debt	\$3.0	\$3.2
Amortization of deferred financing fees	3.3	3.7
Interest related to uncertain tax provisions	0.8	(0.2)
Non-Cash Interest Expense	7.1	6.7
Cash Interest Expense	54.7	58.3
	\$61.8	\$65.0

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 \$78.8 million in the first nine months of 2014 compared to \$84.6 million in the first nine months of 2013, and the effective tax rate was 28.1% compared to 27.9% in the same period in 2013.

For the first nine months of 2014, net income decreased by \$17.1 million to \$201.5 million compared to \$218.6 million in the first nine months of 2013.

Net loss attributable to the noncontrolling interest was \$0.1 million for the first nine months of 2014. Net income attributable to the noncontrolling interest was \$0.1 million for the first nine months of 2013.

Net income and diluted earnings per share attributable to WESCO International was \$201.5 million and \$3.78 per share, respectively, for the first nine months of 2014, compared with \$218.4 million and \$4.17 per share, respectively, for the first nine months of 2013.

#### Liquidity and Capital Resources

Total assets were \$4.9 billion and \$4.6 billion at September 30, 2014 and December 31, 2013, respectively. Total liabilities were \$3.0 billion and \$2.9 billion at September 30, 2014 and December 31, 2013, respectively. Stockholders' equity increased \$143.9 million to \$1.9 billion at September 30, 2014, mainly due to net income for the first nine months of 2014 of \$201.5 million.

Our liquidity needs generally arise from fluctuations in our working capital requirements, capital expenditures, acquisitions and debt service obligations. As of September 30, 2014, we had \$485.8 million in available borrowing capacity under our Revolving Credit Facility, which combined with our invested cash of \$53.1 million, provided liquidity of \$538.9 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. At September 30, 2014, approximately 50% 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 September 30, 2014. Our financial leverage ratio as of September 30, 2014 and December 31, 2013 was 3.2.

The following table sets forth the Company's financial leverage ratio as of September 30, 2014 and December 31, 2013:



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Twelve months ended	September 30, 2014	December 31, 2013
Amounts in millions		
Income from operations	\$452.6	\$481.0
ArcelorMittal litigation recovery	—	(36.1)
Depreciation and amortization	67.9	67.6
Adjusted EBITDA	\$520.5	\$512.5
	September 30, 2014	December 31, 2013
Current debt	\$45.4	\$40.1
Long-term debt	1,471.8	1,447.6
Debt discount related to convertible debentures and term loan <sup>(1)</sup>	171.5	174.7
Total debt including debt discount	1,688.7	1,662.4
Less: Cash and cash equivalents	110.4	123.7
Total debt including debt discount, net of cash	\$1,578.3	\$1,538.7
Financial leverage ratio based on total debt	3.2	3.2
Financial leverage ratio based on total debt, net of cash	3.0	3.0

Note: Financial leverage is a non-GAAP financial measure provided by the Company as an indicator of capital structure position. Financial leverage ratio based on total debt is calculated by dividing total debt, including debt discount, by Adjusted EBITDA. Financial leverage ratio based on total debt, net of cash, is calculated by dividing total debt, including debt discount, net of cash, by Adjusted EBITDA. Adjusted EBITDA is defined as the trailing twelve months earnings before interest, taxes, depreciation and amortization, excluding the ArcelorMittal litigation recovery. Financial leverage ratio based on total net debt is calculated by dividing total debt, including debt discount less cash and cash equivalents, by Adjusted EBITDA.

<sup>(1)</sup>The convertible debentures and term loan are presented in the consolidated balance sheets in long-term debt net of the unamortized discount.

At September 30, 2014, we had cash and cash equivalents totaling \$110.4 million, of which \$82.3 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 2014 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 2014. 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 2014 totaled \$139.8 million, compared with \$179.7 million of cash generated for the first nine months of 2013. Cash provided by operating activities included net income of \$201.5 million and adjustments to net income totaling \$78.3 million. Other sources of cash in 2014 were generated from an increase in accounts payable of \$106.9 million due to an increase in purchasing activity, and an increase in other current and noncurrent liabilities of \$19.9 million. Primary uses of cash in 2014 included: \$175.0 million for the increase in trade receivables resulting from the increase in sales in the first nine months of the year; \$54.1 million for the increase in inventories; and \$34.9 million for the increase in prepaid expenses and other current assets.



Cash provided by operating activities for the first nine months of 2013 totaled \$179.7 million. 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. 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; \$49.7 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 and \$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.

**Investing Activities.** Net cash used by investing activities for the first nine months of 2014 was \$149.4 million, compared with \$11.2 million of net cash used during the first nine months of 2013. Included in the first nine months of 2014 were acquisition payments of \$138.8 million. Capital expenditures were \$16.0 million and \$20.5 million in the first nine months of 2014 and 2013, respectively.

**Financing Activities.** Net cash used in financing activities for the first nine months of 2014 was \$4.4 million. Net cash used in financing activities for the first nine months of 2013 was \$154.5 million. During the first nine months of 2014, financing activities consisted of borrowings and repayments of \$800.0 million and \$800.5 million, respectively, related to our Revolving Credit Facility, borrowings and repayments of \$112.1 million and \$65.7 million, respectively, related to our Receivables Facility, repayments of \$19.2 million applied to the Company's Term Loan Facility, and borrowings and repayments on our various international lines of credit of approximately \$49.7 million and \$42.2 million, respectively. Financing activities for the first nine months of 2014 also included repayment of \$29.4 million of cash that was obtained in connection with the December 14, 2012 acquisition of EECOL.

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.

#### **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 2013 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 0.5% of our sales revenue in the nine months ended September 30, 2014. 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 quarter are affected by a reduced level of activity. Sales during the second, third and fourth quarters are generally 4-6% higher than the first quarter. 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 seasonal 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, 2013, 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.

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, 2014 that would require an update to the disclosures provided in our 2013 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 2014, 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, 2014, management has excluded LaPrairie, Hazmasters, and Hi-Line, three companies acquired during the first half of 2014. Management is currently assessing the control environments of these acquisitions. The total revenue of these companies included in the Company's consolidated revenue for the nine month period ended September 30, 2014 represent 1.2% of the Company's consolidated revenue.

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 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. As a result, the Company recorded a \$36.1 million charge to selling, general and administrative expenses in 2012. 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. Final judgment was entered by the court on July 16, 2013, and the Company is appealing the judgment. As of September 30, 2014, the Company recorded a liability and a corresponding receivable in the amount of \$8.7 million for all prejudgment and post-judgment interest accrued in connection with this matter. The judgment may increase or decrease based on the outcome of the appellate proceedings that cannot be predicted with certainty.

See also the information set forth in Note 7 Commitments and Contingencies in the Notes to Condensed Consolidated Financial Statements under Part 1, Item 1 of this Form 10-Q, which is incorporated by reference in response to this Item.

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.

November 3, 2014

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