ANIXTER INTERNATIONAL INC
Form 10-Q
November 01, 2007

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

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

**For the quarterly period ended September 28, 2007**

**OR**

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

**For the transition period from __________ to __________**

**Commission File Number: 1-5989**

**ANIXTER INTERNATIONAL INC.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **94-1658138** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**2301 Patriot Blvd.**
**Glenview, Illinois 60026**
**(224) 521-8000**

(Address and telephone number of principal executive offices)

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 the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes o No þ

At October 25, 2007, 37,493,330 shares of the registrant s Common Stock, $1.00 par value, were outstanding.

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## PART I. FINANCIAL INFORMATION



## PART II. OTHER INFORMATION



* *No reportable information under this item.*

*This report may contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The statements can be identified by the use of forward-looking terminology such as believe, expects, intends, anticipates, completes, estimates, plans, projects, should, may or the negative thereof or other variations thereon or comparable termin indicating the Company s expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, a number of which are identified in this report. Other factors could also cause actual results to differ materially from expected results included in these statements. These factors include changes in supplier or customer relationships, technology changes, economic and currency risks, new or changed competitors, risks associated with inventory, commodity price fluctuations and risks associated with the integration of recently acquired companies.*

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS.

## ANIXTER INTERNATIONAL INC.
## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
## (Unaudited)

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| **(In millions, except per share amounts)** | **September 28, 2007** | **September 29, 2006** | **September 28, 2007** | **September 29, 2006** |
| **Net sales** | $ 1,521.2 | $ 1,330.5 | $ 4,361.4 | $ 3,640.8 |
| Cost of operations: | | | | |
| Cost of goods sold | 1,154.2 | 1,010.0 | 3,312.7 | 2,756.0 |
| Operating expenses | 246.8 | 223.2 | 718.2 | 634.9 |
| Amortization of intangibles | 2.0 | 1.2 | 5.8 | 3.2 |
| Total costs and expenses | 1,403.0 | 1,234.4 | 4,036.7 | 3,394.1 |
| **Operating income** | 118.2 | 96.1 | 324.7 | 246.7 |
| Other (expense) income: | | | | |
| Interest expense | (11.5) | (10.0) | (33.5) | (27.5) |
| Other, net | 0.2 | 8.2 | 3.3 | 6.6 |
| Income before income taxes | 106.9 | 94.3 | 294.5 | 225.8 |
| Income tax expense | 42.1 | 18.1 | 111.5 | 68.9 |
| **Net income** | $ 64.8 | $ 76.2 | $ 183.0 | $ 156.9 |
| **Net income per share:** | | | | |
| Basic | $ 1.73 | $ 1.95 | $ 4.89 | $ 4.03 |
| Diluted | $ 1.51 | $ 1.76 | $ 4.32 | $ 3.66 |

See accompanying notes to the condensed consolidated financial statements.

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**ANIXTER INTERNATIONAL INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| (In millions, except share amounts) | September 28, 2007 (Unaudited) | December 29, 2006 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 45.5 | $ 50.9 |
| Accounts receivable (less allowances of $25.8 and $20.6 in 2007 and 2006, respectively) | 1,233.9 | 1,016.1 |
| Inventories | 1,056.1 | 904.9 |
| Deferred income taxes | 41.4 | 32.0 |
| Other current assets | 19.7 | 16.4 |
| Total current assets | 2,396.6 | 2,020.3 |
| Property and equipment, at cost | 230.1 | 205.0 |
| Accumulated depreciation | (156.6) | (143.0) |
| Net property and equipment | 73.5 | 62.0 |
| Goodwill | 405.0 | 364.8 |
| Other assets | 158.2 | 119.1 |
| | $ 3,033.3 | $ 2,566.2 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable | $ 647.5 | $ 506.8 |
| Accrued expenses | 210.0 | 203.4 |
| Short-term debt | 90.7 | 212.3 |
| Total current liabilities | 948.2 | 922.5 |
| Long-term debt | 936.3 | 597.0 |
| Other liabilities | 104.7 | 84.7 |
| Total liabilities | 1,989.2 | 1,604.2 |
| **Stockholders equity** | | |
| Common stock $1.00 par value, 100,000,000 shares authorized, 37,445,086 and 39,500,734 shares issued and outstanding in 2007 and 2006, respectively | 37.4 | 39.5 |
| Capital surplus | 138.8 | 113.0 |
| Retained earnings | 825.7 | 803.3 |
| Accumulated other comprehensive income: | | |
| Foreign currency translation | 56.9 | 23.4 |
| Pension liability | (17.1) | (19.6) |
| Unrealized gain on derivatives | 2.4 | 2.4 |

| | | | | |
|---|---|---|---|---|
| Total accumulated other comprehensive income | | 42.2 | | 6.2 |
| Total stockholders equity | | 1,044.1 | | 962.0 |
| | $ | 3,033.3 | $ | 2,566.2 |

See accompanying notes to the condensed consolidated financial statements.

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**ANIXTER INTERNATIONAL INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited)**

| | 39 Weeks Ended September 28, 2007 | 39 Weeks Ended September 29, 2006 |
|---|---|---|
| | (In millions) | |
| **Operating activities** | | |
| Net income | $ 183.0 | $ 156.9 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 16.6 | 14.6 |
| Amortization of stock compensation | 8.8 | 8.4 |
| Amortization of intangible assets and deferred financing costs | 7.2 | 3.7 |
| Accretion of zero coupon convertible notes | 3.9 | 3.8 |
| Deferred income taxes | (1.8) | 1.8 |
| Excess income tax benefit from employee stock plans | (14.2) | (8.3) |
| Changes in current assets and liabilities, net | (157.3) | (237.5) |
| Other, net | (0.9) | (0.4) |
| Net cash provided by (used in) operating activities | 45.3 | (57.0) |
| **Investing activities** | | |
| Acquisition of businesses | (38.4) | (29.6) |
| Capital expenditures | (25.4) | (16.9) |
| Other | 0.6 | |
| Net cash used in investing activities | (63.2) | (46.5) |
| **Financing activities** | | |
| Repayment of borrowings | (657.7) | (389.7) |
| Proceeds from borrowings | 555.2 | 479.3 |
| Proceeds from issuance of convertible senior notes | 300.0 | |
| Purchases of common stock for treasury | (162.7) | |
| Purchased call option | (88.8) | |
| Proceeds from sale of warrant | 52.0 | |
| Excess income tax benefit from employee stock plans | 14.2 | 8.3 |
| Proceeds from issuance of common stock | 9.8 | 12.5 |
| Deferred financing costs | (8.4) | (0.1) |
| Other | (1.1) | (0.8) |
| Net cash provided by financing activities | 12.5 | 109.5 |
| **(Decrease) increase in cash and cash equivalents** | (5.4) | 6.0 |
| Cash and cash equivalents at beginning of period | 50.9 | 21.8 |
| Cash and cash equivalents at end of period | $ 45.5 | $ 27.8 |

See accompanying notes to the condensed consolidated financial statements.

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**ANIXTER INTERNATIONAL INC.**
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of presentation:*** The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in Anixter International Inc. s ( the Company ) Annual Report on Form 10-K for the year ended December 29, 2006. The condensed consolidated financial information furnished herein reflects all adjustments (consisting of normal recurring accruals), which are, in the opinion of management, necessary for a fair presentation of the condensed consolidated financial statements for the periods shown. Certain reclassifications have been made to conform to the current year presentation. The results of operations of any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

***Recently issued accounting pronouncements:*** In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ( FIN 48 ). The recognition and disclosure provisions of FIN 48 were effective for the Company on December 30, 2006 (the beginning of fiscal 2007 for the Company). Accordingly, the cumulative effect of applying FIN 48 to preexisting tax positions of $0.9 million has been recorded as a decrease in the opening balance of retained earnings. See Note 4. Income Taxes for further discussion of the effect of adopting FIN 48 on the Company s condensed consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (fiscal 2008 for the Company), and interim periods within those fiscal years. The Company is evaluating the provisions of SFAS No. 157 to determine the impact, if any, on the Company s condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS No. 159 ). SFAS No. 159 permits entities to elect to measure financial instruments and other eligible items at fair value at specified election dates. SFAS No. 159 allows entities to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (fiscal 2008 for the Company). The Company does not anticipate the provisions of SFAS No. 159 will have a material impact on its condensed consolidated financial statements.

**NOTE 2. COMPREHENSIVE INCOME**

Comprehensive income, net of tax, consisted of the following:

| | 13 Weeks Ended | | 39 Weeks Ended | |
|---|---|---|---|---|
| **(In millions)** | **September 28, 2007** | **September 29, 2006** | **September 28, 2007** | **September 29, 2006** |
| Net income | $ 64.8 | $ 76.2 | $ 183.0 | $ 156.9 |
| Change in cumulative translation adjustment | 15.9 | 4.7 | 33.5 | 17.9 |
| Change in fair market value of derivatives | (1.7) | (0.7) | | 1.3 |
| Change in pension liability | (0.1) | (0.1) | 2.5 | (0.1) |
| Comprehensive income | $ 78.9 | $ 80.1 | $ 219.0 | $ 176.0 |

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**ANIXTER INTERNATIONAL INC.**
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 3. INCOME PER SHARE**

The following table sets forth the computation of basic and diluted income per share:

| (In millions, except per share data) | 13 Weeks Ended September 28, 2007 | 13 Weeks Ended September 29, 2006 | 39 Weeks Ended September 28, 2007 | 39 Weeks Ended September 29, 2006 |
|---|---|---|---|---|
| **Basic Income per Share:** | | | | |
| Net income | $ 64.8 | $ 76.2 | $ 183.0 | $ 156.9 |
| Weighted-average common shares outstanding | 37.4 | 39.2 | 37.4 | 38.9 |
| Net income per share | $ 1.73 | $ 1.95 | $ 4.89 | $ 4.03 |
| **Diluted Income per Share:** | | | | |
| Net income | $ 64.8 | $ 76.2 | $ 183.0 | $ 156.9 |
| Weighted-average common shares outstanding | 37.4 | 39.2 | 37.4 | 38.9 |
| Effect of dilutive securities: | | | | |
| Stock options and units | 1.1 | 1.4 | 1.2 | 1.5 |
| Convertible notes due 2033 | 3.5 | 2.7 | 3.3 | 2.5 |
| Convertible notes due 2013 | 0.9 | | 0.5 | |
| Weighted-average common shares outstanding | 42.9 | 43.3 | 42.4 | 42.9 |
| Net income per share | $ 1.51 | $ 1.76 | $ 4.32 | $ 3.66 |

On February 16, 2007, the Company issued $300.0 million of Convertible Senior Notes due 2013. Upon conversion, holders will receive cash up to the principal amount, and any excess conversion value will be delivered, at the Company s election in cash, common stock or a combination of cash and common stock. As a result of the Company s average stock price exceeding the conversion price of $63.48 per share, 0.9 million and 0.5 million additional shares have been included in the diluted weighted-average common shares outstanding for the 13 and 39 weeks ended September 28, 2007, respectively.

The Convertible Notes due 2033 were originally issued in July of 2003 and were convertible into 15.067 shares of the Company s common stock during both the 13 and 39 weeks ended September 28, 2007 and September 29, 2006. As a result of the conversion value exceeding the accreted principal, 3.5 million and 3.3 million additional shares related to the Convertible Notes due 2033 have been included in the diluted weighted-average common shares outstanding for the 13 and 39 weeks ended September 28, 2007, respectively. In the corresponding periods in 2006, 2.7 million and 2.5 million additional shares related to the Convertible Notes due 2033 have been included in the diluted weighted-average common shares outstanding. Upon conversion, the Company is required to deliver an amount of cash equal to the accreted principal amount and a number of common stock shares with a value equal to the amount, if any, by which the conversion value exceeds the accreted principal amount at the time of the conversion.

In the 13 weeks ended September 28, 2007 and September 29, 2006, the Company issued 0.3 million and 0.2 million shares, respectively, due to stock option exercises and vesting of stock units. In the 39 weeks ended September 28, 2007 and September 29, 2006, the Company issued 1.0 million and 0.9 million shares, respectively, due to stock option exercises and vesting of stock units.

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**ANIXTER INTERNATIONAL INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 4. INCOME TAXES**

The Company s tax provision for the 13 weeks ended September 28, 2007 reflects an effective tax rate of 39.4% which compares to an effective tax rate of 19.3% in the corresponding period in the prior year. In the 13 weeks ended September 29, 2006, the Company recorded an $18.1 million reduction of tax expense primarily related to a tax settlement with the Internal Revenue Service ( IRS ). Excluding the effects of that settlement, the Company s effective tax rate in the 13 weeks ended September 29, 2006 was 38.4%. The increase in the effective tax rate in the 13 weeks ended September 28, 2007 as compared to the corresponding period in the prior year is due to a change of mix in the Company s projected earnings by taxing jurisdiction. The change in the tax rate did not have a material impact on net income or earnings per share.

The effective tax rate for the 39 weeks ended September 28, 2007 is 37.9%, inclusive of $1.8 million of net tax benefits primarily related to the settlement of certain income tax audits occurring during the first six months of this year. The effective tax rate for the 39 weeks ended September 29, 2006 was 30.5%, inclusive of the $18.1 million reduction of tax expense related to the settlement with the Internal Revenue Service. Excluding the tax benefits recorded in the 39 weeks ended September 28, 2007 and September 29, 2006, the Company s tax rate was 38.5% in both periods.

On December 30, 2006 (the beginning of fiscal 2007 for the Company), the provisions of FIN 48 were adopted. As a result of the implementation of FIN 48, the Company recorded a $0.9 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the opening balance of retained earnings. At December 30, 2006, the total amount of unrecognized tax benefits was $12.1 million ($11.3 million, if recognized, would affect the effective tax rate). During the 39 weeks ended September 28, 2007, the Company settled certain income tax audits and reversed a net amount of $3.7 million of unrecognized tax benefits that existed at December 30, 2006. The Company estimates that the September 28, 2007 unrecognized tax benefit balance of $8.4 million ($7.6 million, if recognized, would affect the effective tax rate) will not change significantly within the next twelve months.

After the settlements with the IRS in 2006 and the first quarter of 2007, only the returns for fiscal tax years 2005 and later remain subject to examination by the IRS, which is the most significant tax jurisdiction for the Company. For most states, fiscal tax years 2004 and later remain subject to examination, although for some states that are currently in the midst of examinations or in various stages of appeal, the period subject to examination ranges back to as early as fiscal tax year 1999. In Canada, the fiscal tax years 2002 and later are still subject to examination, while in the United Kingdom, the fiscal tax years 2001 and later remain subject to examination.

During the 13 and 39 weeks ended September 28, 2007, interest and penalties related to taxes were $0.1 million and $0.4 million, respectively. During the 13 and 39 weeks ended September 29, 2006, interest and penalties related to taxes were $0.1 million and $0.5 million, respectively. Interest and penalties are reflected in the Other, net line in the condensed consolidated statement of operations. Included in the unrecognized tax benefit balance of $8.4 million and $12.1 million at September 28, 2007 and December 29, 2006, respectively, are accruals of $2.6 million and $2.7 million, respectively, for the payment of interest and penalties.

**NOTE 5. DEBT**

At September 28, 2007, the Company s total debt outstanding was $1,027.0 million as compared to $809.3 million at December 29, 2006. The Company s weighted-average cost of borrowings was 4.3% and 5.5% for the 13 weeks ended September 28, 2007 and September 29, 2006, respectively, and 4.4% and 5.3% for the 39 weeks ended September 28, 2007 and September 29, 2006, respectively.

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**ANIXTER INTERNATIONAL INC.**
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On September 26, 2007, the Company s primary operating subsidiary, Anixter Inc., amended its senior unsecured amended and restated revolving credit agreement, dated April 20, 2007. This amendment allows for borrowings of up to $450 million (or the equivalent in Euro) for a 5-year period ending in April of 2012, an increase of $100 million from the prior limit. The pricing for this additional $100 million of borrowings is LIBOR plus 82.5 basis points and the facility fee payable is 17.5 basis points. The pricing on the first $350 million of borrowings is LIBOR plus 60 basis points and the facility fee payable is 15 basis points. Other than the pricing difference, no other terms or conditions of the credit agreement changed as a result of this $100 million increase in borrowing availability. The agreement, which is guaranteed by the Company, contains financial covenants (all of which have been met) that restrict the amount of leverage and set a minimum fixed charge coverage ratio.

In July 2007, the Company amended Anixter Canada Inc. s $40.0 million (Canadian dollar) unsecured revolving credit facility which is used for general corporate purposes. The key changes to the terms and conditions were a reduction in borrowing costs and the extension of the maturity to April of 2012. The Canadian dollar-borrowing rate under the agreement is the Banker Acceptance/Canadian Dollar Offered Rate ( BA/CDOR ) plus the applicable bankers acceptance fee (currently 75.0 basis points) for Canadian dollar advances or the prime rate plus the applicable margin (currently 15.0 basis points). The borrowing rate for U.S. dollar advances is the base rate plus the applicable margin. In addition, standby fees on the unadvanced balance are 15.0 basis points. At September 28, 2007 and December 29, 2006, $22.0 million and $19.0 million (U.S. dollar) was borrowed, respectively, under the facility and included in long-term debt outstanding.

On February 16, 2007, the Company completed a private placement of $300.0 million principal amount of Convertible Senior Notes due 2013 (the Notes due 2013 ). In May 2007, the Company registered the Notes due 2013 and shares of the Company s common stock issueable upon conversion of the Notes due 2013 for resale by certain selling security holders.

The Notes due 2013 pay interest semiannually at a rate of 1.00% per annum. The Notes due 2013 will be convertible, at the holders option, at an initial conversion rate of 15.753 shares per $1,000 principal amount of Notes due 2013, equivalent to a conversion price of $63.48 per share, which represents a 15 percent conversion premium based on the last reported sale price of $55.20 per share of the Company s common stock on February 12, 2007. The Notes due 2013 are convertible, under certain circumstances (as described below), into 4,725,900 shares of the Company s common stock, subject to customary anti-dilution adjustments. Upon conversion, holders will receive cash up to the principal amount, and any excess conversion value will be delivered, at the Company s election, in cash, common stock or a combination of cash and common stock.

Net proceeds from this offering were approximately $292.6 million after deducting discounts, commissions and estimated expenses. Concurrent with the issuance of the Notes due 2013, the Company entered into a convertible note hedge transaction, comprised of a purchased call option and a sold warrant, with an affiliate of one of the initial purchasers. The transaction will generally have the effect of increasing the conversion price of the Notes due 2013. The net cost to the Company was approximately $36.8 million. Concurrent with the sale of these convertible notes, the Company also repurchased 2 million shares of common stock at a cost of $110.4 million ($55.20 per share) with the net proceeds from the issuance of the Notes due 2013. The remaining proceeds from the transactions were used for general corporate purposes, including reducing funding under the Company s accounts receivable securitization program and to reduce borrowings under its revolving credit facilities.

The Company paid $88.8 million ($54.9 million net of tax) for a call option that will cover 4,725,900 shares of its common stock, subject to customary anti-dilution adjustments. The purchased call option has an exercise price that is 15% higher than the closing price of $55.20 per share of the Company s common stock at issuance (or $63.48).

Concurrently with purchasing the call option, the Company sold to the counterparty for $52.0 million a warrant to purchase 4,725,900 shares of its common stock, subject to customary anti-dilution adjustments. The sold warrant has an exercise price that is 50% higher than the closing price of $55.20 per share of the Company s common stock at issuance (or $82.80) and may not be exercised prior to the maturity of the notes.

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**ANIXTER INTERNATIONAL INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Holders of the Notes due 2013 may convert them prior to the close of business on the business day before the maturity date based on the applicable conversion rate only under the following circumstances:

*Conversion Based on Common Stock Price*

Holders may convert during any fiscal quarter beginning after March 30, 2007, and only during such fiscal quarter, if the closing price of the Company s common stock for at least 20 trading days in the 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter is more than 130% of the conversion price per share, or $82.52. The conversion price per share is equal to $1,000 divided by the then applicable conversion rate (currently 15.753 shares per $1,000 principal amount).

*Conversion Based on Trading Price of Notes*

Holders may convert during the five business day period after any period of five consecutive trading days in which the trading price per $1,000 principal amount of Notes due 2013 for each trading day of that period was less than 98% of the product of the closing price of the Company s common stock for each trading day of that period and the then applicable conversion rate.

*Conversion Upon Certain Distributions*

If the Company elects to:

- distribute, to all holders of the Company s common stock, any rights entitling them to purchase, for a period expiring within 45 days of distribution, common stock, or securities convertible into common stock, at less than, or having a conversion price per share less than, the closing price of the Company s common stock; or

- distribute, to all holders of the Company s common stock, assets, cash, debt securities or rights to purchase the Company s securities, which distribution has a per share value exceeding 15% of the closing price of such common stock,

holders may surrender their Notes due 2013 for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date or the Company s announcement that such distribution will not take place.

*Conversion Upon a Fundamental Change*

Holders may surrender Notes due 2013 for conversion at any time beginning 15 days before the anticipated effective date of a fundamental change and until the Company makes any required purchase of the Notes due 2013 as a result of the fundamental change. A fundamental change means the occurrence of a change of control or a termination of trading of the Company s common stock. Certain change of control events may give rise to a make whole premium.

*Conversion at Maturity*

Holders may surrender their Notes due 2013 for conversion at any time beginning on January 15, 2013 and ending at the close of business on the business day immediately preceding the maturity date.

The conversion rate is 15.753 shares of the Company s common stock, subject to certain customary anti-dilution adjustments. These adjustments consist of adjustments for:

- stock dividends and distributions, share splits and share combinations,

- the issuance of any rights to all holders of the Company s common stock to purchase shares of such stock at an issuance price of less than the closing price of such stock, exercisable within 45 days of issuance,

- the distribution of stock, debt or other assets, to all holders of the Company s common stock, other than distributions covered above, and

- issuer tender offers at a premium to the closing price of the Company s common stock.

**ANIXTER INTERNATIONAL INC.**

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The conversion value of the Notes due 2013 means the average of the daily conversion values, as defined below, for each of the 20 consecutive trading days of the conversion reference period. The daily conversion value means, with respect to any trading day, the product of (1) the applicable conversion rate and (2) the volume weighted average price per share of the Company s common stock on such trading day.

The conversion reference period means:

for Notes due 2013 that are converted during the one month period prior to the maturity date of the notes, the 20 consecutive trading days preceding and ending on the maturity date, subject to any extension due to a market disruption event, and

in all other instances, the 20 consecutive trading days beginning on the third trading day following the conversion date.

The conversion date with respect to the Notes due 2013 means the date on which the holder of the Notes due 2013 has complied with all the requirements under the indenture to convert such Notes due 2013.

**NOTE 6. PENSION PLANS**

The Company has various defined benefit and defined contribution pension plans. The defined benefit plans of the Company are the Anixter Inc. Pension Plan, Executive Benefit Plan and Supplemental Executive Retirement Plan (together the Domestic Plans ) and various pension plans covering employees of foreign subsidiaries ( Foreign Plans ). The majority of the Company s pension plans are non-contributory and cover substantially all full-time domestic employees and certain employees in other countries. Retirement benefits are provided based on compensation as defined in both the Domestic and Foreign Plans. The Company s policy is to fund all plans as required by the Employee Retirement Income Security Act of 1974 ( ERISA ), the Internal Revenue Service and applicable foreign laws. Assets in the various plans consisted primarily of equity securities and fixed income investments.

Components of net periodic pension cost are as follows:

| | 13 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Domestic | | Foreign | | Total | |
| | September 28, 2007 | September 29, 2006 | September 28, 2007 | September 29, 2006 | September 28, 2007 | September 29, 2006 |
| | (In millions) | | | | | |
| Service cost | $ 1.5 | $ 1.6 | $ 1.4 | $ 1.1 | $ 2.9 | $ 2.7 |
| Interest cost | 2.6 | 2.3 | 2.4 | 1.7 | 5.0 | 4.0 |
| Expected return on plan assets | (2.7) | (2.3) | (2.5) | (1.7) | (5.2) | (4.0) |
| Net amortization | 0.1 | 0.7 | 0.1 | 0.2 | 0.2 | 0.9 |
| Net periodic cost | $ 1.5 | $ 2.3 | $ 1.4 | $ 1.3 | $ 2.9 | $ 3.6 |

| | 39 Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Domestic | | Foreign | | Total | |
| | September 28, 2007 | September 29, 2006 | September 28, 2007 | September 29, 2006 | September 28, 2007 | September 29, 2006 |
| | (In millions) | | | | | |
| Service cost | $ 4.3 | $ 4.8 | $ 4.2 | $ 4.0 | $ 8.5 | $ 8.8 |
| Interest cost | 7.1 | 6.4 | 7.0 | 6.7 | 14.1 | 13.1 |
| | (8.0) | (6.7) | (7.4) | (6.7) | (15.4) | (13.4) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expected return on plan assets | | | | | | |
| Net amortization | 0.4 | 1.5 | 0.3 | 0.5 | 0.7 | 2.0 |