ANIXTER INTERNATIONAL INC
Form 10-K
February 27, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 2, 2009

or

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

Commission file number 001-10212

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, IL 60026
(224) 521-8000
(Address and telephone number of principal executive offices in its charter)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class on Which Registered	Name of Each Exchange on Which Registered
Common stock, $1 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes o No þ

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

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

The aggregate market value of the shares of registrant s Common Stock, $1 par value, held by nonaffiliates of the registrant was approximately $1,743,366,599 as of June 27, 2008.

At February 20, 2009, 35,128,640 shares of registrant s Common Stock, $1 par value, were outstanding.

Documents Incorporated by Reference:

Certain portions of the registrant s Proxy Statement for the 2009 Annual Meeting of Stockholders of Anixter International Inc. are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS.

(a) General Development of Business

Anixter International Inc. (the Company), formerly known as Itel Corporation, which was incorporated in Delaware in 1967, is engaged in the distribution of communications and electrical wire and cable products and fasteners and other small parts (C Class inventory components) through Anixter Inc. and its subsidiaries (collectively Anixter).

In August of 2008, the Company acquired the assets and operations of QSN Industries, Inc. (QSN) and all of the outstanding shares of Quality Screw de Mexico SA (QSM). QSN is based near Chicago, Illinois and QSM is based in Aguascalientes, Mexico. In the fiscal month of September 2008, the Company acquired all of the outstanding shares of Sofrasar SA (Sofrasar) and partnership interests and shares in Camille Gergen GmbH & Co, KG and Camille Gergen Verwaltungs GmbH (collectively Gergen) from the Gergen family and management of the entities. Sofrasar is headquartered in Sarreguemines, France and Gergen is based in Dillingen, Germany. In October of 2008, the Company acquired all the assets and operations of World Class Wire & Cable Inc. (World Class), a Waukesha, Wisconsin based distributor of electrical wire and cable. These acquisitions will complement Anixter s product offering with a broad array of value-added services and supply chain management programs to Original Equipment Manufacturers (OEMs) in a number of vertical markets. These, along with other strategic acquisitions made over the last five years (Total Supply Solutions Limited (TSS), Eurofast SAS (Eurofast), MFU Holding S.p.A. (MFU), IMS, Inc. (IMS), Infast Group plc (Infast), Distribution Dynamics Inc., Walters Hexagon Group Ltd. and Pentacon Inc.), further the Company s goal of building on the Company s current strategic platform to drive future organic sales growth.

(b) Financial Information about Industry Segments

The Company is engaged in the distribution of communications and electrical wire and cable products, fasteners and C Class inventory components from top suppliers to contractors, installers, integrators and end users. The Company also supplies OEMs, in a wide variety of end markets, who use the Company s products as a component in their end product. The Company is organized by geographic regions and, accordingly, has identified North America (United States and Canada), Europe and Emerging Markets (Asia Pacific and Latin America) as reportable segments. The Company obtains and coordinates financing, legal, tax, information technology and other related services, certain of which are rebilled to subsidiaries. Interest expense and other non-operating items are not allocated to the segments or reviewed on a segment basis.

Within each geographic segment, the Company organizes its sales teams based on the anticipated customer use or application of the products sold. Currently, the Company has enterprise cabling and security sales specialists (primarily copper and fiber data cabling, connectivity, security products and related support and supply products), electrical wire and cable sales specialists (primarily power, control and instrumentation cabling) and OEM supply sales specialists (primarily direct production line feed programs of small components to OEMs). All sales teams have access to the full array of products and services offered by the Company and all sales are serviced by the same operations, systems and support functions of the Company.

For certain financial information concerning the Company s business segments, see Note 9. Business Segments in the Notes to the Consolidated Financial Statements.

(c) Narrative Description of Business

Overview

The Company is a leader in the provision of advanced inventory management services including procurement, just-in-time delivery, quality assurance testing, advisory engineering services, component kit production, small component assembly and e-commerce and electronic data interchange to a broad spectrum of customers. The Company s comprehensive supply chain management solutions are designed to reduce customer procurement and management costs and enhance overall production or installation efficiencies. Inventory management services are frequently provided under customer contracts for periods in excess of one year and include the interfacing of Anixter and customer information systems and the maintenance of dedicated distribution facilities. These services are provided exclusively in connection with the sales of products, and as such, the price of such services are included in the price of the products delivered to the customer.

Through a combination of its service capabilities and a portfolio of products from industry-leading manufacturers, Anixter is a leading global distributor of data, voice, video and security network communication products and the largest North American distributor of specialty wire and cable products. In addition, Anixter is a leading distributor of C Class inventory components which are incorporated into a wide variety of end-use applications and include screws, bolts, nuts, washers, pins, rings, fittings, springs, electrical connectors and similar small parts, the majority of which are specialized or highly engineered for particular customer applications.

Customers

The Company sells products to over 100,000 active customers. These customers are international, national, regional and local companies that include end users of the Company s products, installers, integrators and resellers of the Company s products as well as OEMs who use the Company s products as a component of their end product. Customers for the Company s products cover all industry groups including manufacturing, telecommunications, internet service providers, finance, education, healthcare, transportation, utilities, aerospace and defense and government as well as contractors, installers, system integrators, value-added resellers, architects, engineers and wholesale distributors. The Company s customer base is well-diversified with no single customer accounting for more than 3% of sales and no single end-market industry group accounting for more than 11% of sales.

Products

Anixter sells over 425,000 products. These products include communications (voice, data, video and security) products used to connect personal computers, peripheral equipment, mainframe equipment, security equipment and various networks to each other. These products consist of an assortment of transmission media (copper and fiber optic cable), connectivity products, support and supply products, and security surveillance and access control products. These products are incorporated into enterprise networks, physical security networks, central switching offices, web hosting sites and remote transmission sites. In addition, Anixter provides electrical wire and cable products, including electrical and electronic wire and cable, control and instrumentation cable and coaxial cable that is used in a wide variety of maintenance, repair and construction-related applications. The Company also provides a wide variety of electrical and electronic wire and cable products, fasteners and other small components that are used by original equipment manufacturers in manufacturing a wide variety of products.

Suppliers

The Company sources products from over 7,000 suppliers. However, approximately 30% of Anixter s dollar volume purchases in 2008 were from its five largest suppliers. An important element of Anixter s overall business strategy is to develop and maintain close relationships with its key suppliers, which include the world s leading manufacturers of communication cabling, connectivity, support and supply products, electrical wire and cable and fasteners. Such relationships emphasize joint product planning, inventory management, technical support, advertising and marketing. In support of this strategy, Anixter generally does not compete with its suppliers in product design or manufacturing activities. Anixter also generally does not sell private label products that are either one of Anixter s brands or a brand name exclusive to Anixter.

The Company s typical distribution agreement includes the following significant terms:

- a non-exclusive right to re-sell products to any customer in a geographical area (typically defined as a country);
- usually cancelable upon 90 days notice by either party for any reason;

- no minimum purchase requirements, although pricing may change with volume on a prospective basis; and
- the right to pass through the manufacturer s warranty to Anixter s customers.

Distribution and Service Platform

Anixter cost-effectively serves its customers needs through its proprietary computer systems, which connect most of its warehouses and sales offices throughout the world. The systems are designed for sales support, order entry, inventory status, order tracking, credit review and material management. Customers may also conduct

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business through Anixter s e-commerce platform, one of the most comprehensive, user-friendly and secure websites in the industry.

Anixter operates a series of large, modern, regional warehouses in key geographic locations in North America, Europe and Emerging Markets that provide for cost-effective, reliable storage and delivery of products to its customers. Anixter has designated 14 warehouses as regional warehouses. Collectively these facilities store approximately 37% of Anixter s inventory. In certain cities, some smaller warehouses are also maintained to maximize transportation efficiency and to provide for the local needs of customers. This network of warehouses and sales offices consists of 159 locations in the United States, 18 in Canada, 37 in the United Kingdom, 43 in Continental Europe, 26 in Latin America, 18 in Asia and 4 in Australia/New Zealand.

Anixter has also developed close relationships with certain freight, package delivery and courier services to minimize transit times between its facilities and customer locations. The combination of its information systems, distribution network and delivery partnerships allows Anixter to provide a high level of customer service while maintaining a reasonable level of investment in inventory and facilities.

Employees

At January 2, 2009 the Company employed 8,645 people. Approximately 41% of the employees are engaged in sales or sales-related activities, 40% are engaged in warehousing and distribution operations and 19% are engaged in support activities, including inventory management, information services, finance, human resources and general management. Less than three percent of the Company s employees are covered by collective bargaining agreements.

Competition

Given the Company s role as an aggregator of many different types of products from many different sources and because these products are sold to many different industry groups, there is no well-defined industry group against which the company competes. The Company views the competitive environment as highly fragmented with hundreds of distributors and manufacturers that sell products directly or through multiple distribution channels to end users or other resellers. There is significant competition within each end market and geography served that creates pricing pressure and the need for constant attention to improve services. Competition is based primarily on breadth of products, quality, services, price and geographic proximity. Anixter believes that it has a significant competitive advantage due to its comprehensive product and service offerings, highly-skilled workforce and global distribution network. The Company believes its global distribution platform provides a competitive advantage to serving multinational customers needs. The Company s operations and logistics platform gives it the ability to ship orders from inventory for delivery within 24 to 48 hours to all major global markets. In addition, the Company has common systems and processes throughout much of its operations in 52 countries that provide its customers and suppliers with global consistency.

Anixter enhances its value proposition to both key suppliers and customers through its specifications and testing facilities and numerous quality assurance certification programs such as ISO 9001 and QSO 9000. The Company uses its testing facilities in conjunction with suppliers to develop product specifications and to test quality compliance. At its data network-testing lab located at the Company s suburban Chicago headquarters, the Company also works with customers to design and test various product configurations to optimize network design and performance specific to the customers needs. At its various regional quality labs, the Company offers OEMs a comprehensive range of mechanical testing and materials characterization for product testing and failure investigation.

Most of the Company s competitors are privately held, and as a result, reliable competitive information is not available.

Contract Sales and Backlog

The Company has a number of customers who purchase products under long-term (generally three to five year) contractual arrangements. In such circumstances, the relationship with the customer typically involves a high degree of material requirements planning and information systems interfaces and, in some cases, may require the maintenance of a dedicated distribution facility or dedicated personnel and inventory at, or in close proximity to, the customer site to meet the needs of the customer. Such contracts do not generally require the customer to purchase

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any minimum amount of goods from the Company, but would require that materials acquired by Anixter as a result of joint material requirements planning between the Company and the customer be purchased by the customer.

Generally, backlog orders, excluding contractual customers, represent approximately four weeks of sales and ship to customers within 30 to 60 days from order date. The Company s operations and logistics platform gives it the ability to ship orders from inventory stock for delivery within 24 to 48 hours to all major global markets.

Seasonality

The operating results are not significantly affected by seasonal fluctuations except for the impact resulting from variations in the number of billing days from quarter to quarter. Consecutive quarter sales from the third to fourth quarters are generally lower due to the holidays and lower number of billing days as compared to other consecutive quarter comparisons. As the Company s fastener business grows, the Company expects seasonal fluctuations to increase slightly, as the first and second quarter are somewhat stronger in the fastener business, due to third and fourth quarter seasonal and holiday plant shutdowns among original equipment manufacturer customers.

(d) Financial Information about Geographic Areas

For information concerning foreign and domestic operations and export sales see Note 6. Income Taxes and Note 9. Business Segments in the Notes to the Consolidated Financial Statements.

(e) Available Information

The Company maintains an Internet website at http://www.anixter.com that includes links to the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to these reports. These forms are available without charge as soon as reasonably practical following the time they are filed with or furnished to the Securities and Exchange Commission (SEC). Shareholders and other interested parties may request email notifications of the posting of these documents through the Investor Relations section of the Company s website.

The Company s Internet website also contains corporate governance information including corporate governance guidelines; audit, compensation and nomination and governance committee charters; nomination process for directors; and the Company s business ethics and conduct policy.

ITEM 1A. RISK FACTORS.

The following factors could materially adversely affect the Company s operating results and financial condition. Although the Company has tried to discuss key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time, and the Company cannot predict those risks or estimate the extent to which they may affect the Company s financial performance.

A change in sales strategy or financial viability of the Company s suppliers could adversely affect the Company s sales or earnings.

Most of the Company s agreements with suppliers are terminable by either party on short notice for any reason. The Company currently sources products from over 7,000 suppliers. However, approximately 30% of the Company s dollar volume purchases in 2008 were from its five largest suppliers. If any of these suppliers changed its sales strategy to reduce its reliance on distribution channels, or decided to terminate its business relationship with the Company, sales and earnings could be adversely affected until the Company was able to establish relationships with suppliers of comparable products. Although the Company believes its relationships with these key suppliers are good, they could change their strategies as a result of a change in control, expansion of their direct sales force, changes in the marketplace or other factors beyond the Company s control, including a key supplier becoming financially distressed.

The Company s foreign operations are subject to political, economic and currency risks.

The Company derives approximately 41% of its revenues from sales outside of the United States. Economic and political conditions in some of these markets may adversely affect the Company s results of operations, cash flows and financial condition in these markets. The Company s results of operations and the value of its foreign assets are affected by fluctuations in foreign currency exchange rates, and different legal, tax, accounting and regulatory requirements.

The Company has risks associated with inventory.

The Company must identify the right product mix and maintain sufficient inventory on hand to meet customer orders. Failure to do so could adversely affect the Company s sales and earnings. However, if circumstances change (for example, an unexpected shift in market demand, pricing or customer defaults) there could be a material impact on the net realizable value of the Company s inventory. To guard against inventory obsolescence, the Company has negotiated various return rights and price protection agreements with certain key suppliers. The Company also maintains an inventory valuation reserve account against diminution in the value or salability of the Company s inventory. However, there is no guaranty that these arrangements will be sufficient to avoid write-offs in excess of the Company s reserves in all circumstances.

The Company s operating results are affected by copper prices.

The Company s operating results have been affected by changes in copper prices, which is a major component in the electrical wire and cable products sold by the Company. As the Company s purchase costs with suppliers change to reflect the changing copper prices, its mark-up to customers remains relatively constant, resulting in higher or lower sales revenue and gross profit depending upon whether copper prices are increasing or decreasing.

The Company has risks associated with the integration of acquired businesses.

The Company s recent growth in sales and earnings is attributable to a combination of organic growth and acquisitions. In connection with recent and future acquisitions, it is necessary for the Company to continue to create a cohesive business from the various acquired properties. This requires the establishment of a common management team to guide the acquired businesses, the conversion of numerous information systems to a common operating system, the establishment of a brand identity for the acquired businesses, the streamlining of the operating structure to optimize efficiency and customer service and a reassessment of the inventory and supplier base to ensure the availability of products at competitive prices. No assurance can be given that these various actions can continue to be completed without disruption to the business, that the various actions can be completed in a short period of time or that anticipated improvements in operating performance can be achieved.

The Company s debt agreements could impose restrictions on its business.

The Company s debt agreements contain certain financial and operating covenants that limit its discretion with respect to certain business matters. These covenants restrict the Company s ability to incur additional indebtedness. As a result of these restrictions, the Company is limited in how it may conduct business and may be unable to compete effectively or take advantage of new business opportunities.

The Company has risks associated with accounts receivable.

Although no single customer accounts for more than 3% of the Company s sales, a payment default by one of its larger customers could have a short-term impact on earnings. Given the current economic environment, the risk that constrained access to capital and general market contractions may heighten exposure of customer default.

The Company may have substantial funding needs in 2009.

The Company s outstanding 3.25% zero coupon convertible notes due 2033 include a right for the holders of those notes to put them to the Company in July 2009 for cash consideration of $170.3 million. The Company also has outstanding an accounts receivable securitization facility which has a 364 day term that ends in September 2009. At the end of 2008, the Company had $195 million of borrowings under this facility. The Company believes that earnings, additional cash flow generated as a result of lower working capital requirements due to expected lower near-term sales growth as a result of the global recession, and approximately $248 million in available, committed, unused credit lines will be sufficient to fund operations, as well as the specific funding needs discussed above. In the event these sources are not sufficient to support the Company s funding needs, the Company may need to access the capital markets and there can be no assurance that, when the Company accesses the capital markets, funding will be available or will be available on favorable terms. This could result in a material increase in interest expense, decrease in profitability or more restrictive covenants.

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The Company does not anticipate that it will pursue acquisitions or any significant return of capital to shareholders until such time as the current economic conditions show clear signs of improvement and the capital markets return to a more normalized state of operation.

The Company may be required to record a charge to our earnings if our goodwill becomes impaired.

The Company tests for impairment of goodwill annually at the beginning of the third quarter in accordance with generally accepted accounting standards. When events or changes in circumstances indicate that the carrying value for such assets may not be recoverable, however, the Company reviews its goodwill for impairment on an interim basis. Factors that may be considered a change in circumstances requiring our interim testing include a decline in stock price as compared to the Company s book value per share, future cash flows and slower growth rates. As a result of the dramatic change in the economic and market conditions in the fourth quarter of 2008, including the change in the Company s stock price as compared to its book value per share and the significant disruptions in the global credit markets, the Company performed an interim impairment test for goodwill as of the fiscal year end 2008. The Company did not record any impairment charge as a result of that interim test. However, in connection with future annual or interim tests, the Company may be required to record a non-cash charge to earnings in its financial statements during the period in which any impairment of goodwill is determined, resulting in an impact on the Company s results of operations. See *Note 1. Summary of Significant Accounting Policies Goodwill* in the Notes to the Consolidated Financial Statements for additional information related to impairment of goodwill.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company s distribution network consists of approximately 237 warehouses in 52 countries with more than 6.5 million square feet. There are 14 regional distribution centers (100,000 575,000 square feet), 34 local distribution centers (35,000 100,000 square feet) and 189 service centers. Additionally, the Company has approximately 68 sales offices throughout the world. All but 3 of these facilities are leased. No one facility is material to operations, and the Company believes there is ample supply of alternative warehousing space available on similar terms and conditions in each of its markets.

ITEM 3. LEGAL PROCEEDINGS.

In April 2008, the Company voluntarily disclosed to the U.S. Departments of Treasury and Commerce that one of its foreign subsidiaries may have violated U.S. export control laws and regulations in connection with re-exports of goods to prohibited parties or destinations.

The Company has performed a thorough review of its export and re-export transactions and did not identify any other potentially significant violations. The Company has determined appropriate corrective actions. The Company has submitted the results of its review and its corrective action plan to the applicable U.S. government agencies.

Civil penalties may be assessed against the Company in connection with any violations that are determined to have occurred, and based on information currently available, management does not believe that the ultimate resolution of this matter will have a material effect on the business, operations or financial condition of the Company.

From time to time, in the ordinary course of business, the Company and its subsidiaries become involved as plaintiffs or defendants in various legal proceedings. The claims and counterclaims in such litigation, including those for punitive damages, individually in certain cases and in the aggregate, involve amounts that may be material. However, it is the opinion of the Company s management, based upon the advice of its counsel, that the ultimate disposition of pending litigation will not be material.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the fourth quarter of 2008, no matters were submitted to a vote of the security holders.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table lists the name, age as of February 27, 2009, position, offices and certain other information with respect to the executive officers of the Company. The term of office of each executive officer will expire upon the appointment of his successor by the Board of Directors.

Robert J. Eck, 50	President and Chief Executive Officer of the Company since July 2008; Executive Vice-President Chief Operating Officer of the Company from September 2007 to July 2008; Executive Vice-President Enterprise Cabling and Security Systems of Anixter from January 2004 to September 2007; Senior Vice-President Physical Security and Integrated Supply Solutions of Anixter from 2003 to 2004; Senior Vice-President Integrated Supply Solutions of Anixter from 2002 to 2003.
Dennis J. Letham, 57	Executive Vice-President Finance and Chief Financial Officer of the Company since September 2007; Senior Vice-President Finance and Chief Financial Officer of the Company since January 1995; Chief Financial Officer, Executive Vice-President of Anixter since July 1993.
John A. Dul, 47	Vice-President General Counsel and Secretary of the Company since November 2002; Assistant Secretary from May 1995 to November 2002; General Counsel and Secretary of Anixter since January 1996.
Terrance A. Faber, 57	Vice-President Controller of the Company since October 2000.
Philip F. Meno, 50	Vice-President Taxes of the Company since May 1993.
Nancy C. Ross-Dronzek, 48	Vice-President Internal Audit of the Company since December 2007 and of Anixter since July 2007. Director Corporate Audit at The Boeing Company from 2003 to 2007.
Rodney A. Shoemaker, 51	Vice-President Treasurer of the Company since July 1999.
Rodney A. Smith, 51	Vice-President Human Resources of the Company since August 2006; Vice-President Human Resources at UOP, LLC from July 2000 to August 2006.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Anixter International Inc. s Common Stock is traded on the New York Stock Exchange under the symbol AXE. Stock price information, dividend information and shareholders of record are set forth in Note 11. Selected Quarterly Financial Data (Unaudited) in the Notes to the Consolidated Financial Statements. There have been no sales of unregistered securities.

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PERFORMANCE GRAPH

The following graph sets forth the annual changes for the five-year period indicated in a theoretical cumulative total shareholder return of an investment of $100 in Anixter s common stock and each comparison index, assuming reinvestment of dividends. This graph reflects the comparison of shareholder return on the Company s Common Stock with that of a broad market index and a peer group index consistent with the prior year. The Company s Peer Group Index for 2008 consists of the following companies: Agilysys Inc., Arrow Electronics Inc., Avnet Inc., Fastenal Company, W.W. Grainger Inc., Houston Wire and Cable Company, Ingram Micro, MSC Industrial Direct Co. Inc., Park Ohio Holdings Corp., Richardson Electronics Ltd., Tech Data Corp, and WESCO International, Inc. This peer group was selected based on a review of publicly available information about these companies and the Company s determination that they are engaged in distribution businesses similar to that of the Company.

* $100 invested on 1/2/04 in stock or index-including reinvestment of dividends.

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ITEM 6. SELECTED FINANCIAL DATA.

	Fiscal Year				
	2008	2007	2006	2005	2004
	(In millions, except per share amounts)				
Selected Income Statement Data:					
Net sales	**$ 6,136.6**	$ 5,852.9	$ 4,938.6	$ 3,847.4	$ 3,275.2
Operating incomes[a]	**391.9**	439.1	337.1	189.4	138.0
Interest expense and other, net[b]	**(73.8)**	(41.6)	(34.1)	(30.8)	(16.7)
Extinguishment of debt[c]				(1.2)	(0.7)
Income before extraordinary gain[a,b,c,e]	**195.7**	253.5	209.3	90.0	73.6
Extraordinary gain, net[d]					4.1
Net income[a,b,c,d,e]	**$ 195.7**	$ 253.5	$ 209.3	$ 90.0	$ 77.7
Basic income per share:					
Income before extraordinary gain	**$ 5.52**	$ 6.79	$ 5.36	$ 2.37	$ 2.00
Net income	**$ 5.52**	$ 6.79	$ 5.36	$ 2.37	$ 2.11
Diluted income per share:					
Income before extraordinary gain	**$ 5.07**	$ 6.00	$ 4.86	$ 2.22	$ 1.90
Net income	**$ 5.07**	$ 6.00	$ 4.86	$ 2.22	$ 2.01
Dividends declared per common share[f]	$	$	$	$ 4.00	$ 1.50
Selected Balance Sheet Data:					
Total assets[b,g]	**$ 3,091.7**	$ 3,016.2	$ 2,566.2	$ 2,012.1	$ 1,706.6
Total short-term debt[h]	**$ 249.5**	$ 84.1	$ 212.3	$ 1.0	$ 0.1
Total long-term debt[b,h]	**$ 917.5**	$ 937.2	$ 597.0	$ 625.1	$ 412.4
Stockholders equity[f,g]	**$ 1,035.8**	$ 1,047.8	$ 962.0	$ 706.4	$ 763.0
Book value per diluted share	**$ 26.81**	$ 24.82	$ 22.33	$ 17.30	$ 19.75
Weighted-average diluted shares	**38.6**	42.2	43.1	40.8	38.6
Year-end outstanding shares	**35.3**	36.3	39.5	38.4	37.4
Other Financial Data:					
Working capital[b]	**$ 1,350.9**	$ 1,439.0	$ 1,097.8	$ 932.6	$ 815.3
Capital expenditures	**$ 32.7**	$ 36.1	$ 24.8	$ 15.0	$ 14.5
Depreciation and amortization of intangibles	**$ 34.6**	$ 30.8	$ 24.0	$ 21.6	$ 19.1

In August, September and October of 2008, the Company acquired QSN, QSM, Sofrasar, Camille Gergen and World Class for $74.6 million, $4.2 million, $20.7 million, $19.4 million and $61.4 million, respectively, inclusive of legal and advisory fees. In May of 2007, April of 2007, October of 2006, May of 2006, July of 2005, and June of 2004, the Company acquired Eurofast, TSS, MFU, IMS, Infast, and Distribution Dynamics Inc. for $26.9 million, $8.3 million, $61.2 million, $28.8 million, $71.8 million and $32.9 million, respectively, inclusive of legal and advisory fees. As a result of the acquisitions described above, sales in the year of acquisition were favorably affected in 2008, 2007, 2006, 2005 and 2004 by $87.7 million, $125.5 million, $182.0 million, $163.8 million and $142.7 million, respectively, as compared to the prior year. Operating income was favorably affected in 2008, 2007, 2006, 2005 and 2004 by $3.1 million, $12.1 million, $5.1 million, $2.3 million and $3.4 million, respectively, as compared to the prior year. The acquisitions were accounted for as purchases and the results of operations of the acquired businesses are included in the consolidated financial statements from the dates of acquisition.

Notes:

(a) For the year ended January 2, 2009, operating income includes $4.2 million of expense ($0.07 per diluted share) related to the retirement of our former Chief Executive Officer, $24.1 million ($0.38 per diluted share) related to receivable losses from customer bankruptcies, $2.0 million ($0.04 per diluted share) related to the inventory lower of cost or market adjustments resulting from sharply lower copper prices, and $8.1 million ($0.14 per diluted share) primarily related to personnel severance costs related to staffing reductions and exit costs associated with leased facilities that the Company incurred to re-align its business in connection with current market conditions. For the year ended December 29, 2006, operating income includes a favorable sales tax-

related settlement in Australia which reduced operating expenses by $2.2 million ($0.04 per diluted share). For the year ended December 31, 2004, operating income includes net favorable adjustments to cost of sales of $10.2 million ($0.16 per diluted share) arising primarily from a revised agreement with a third party that eliminated the Company s potential liability under an old contract, an impairment charge of $1.8 million ($0.03 per diluted share) to write down to fair value the value assigned to a trade name and unfavorable expenses of $5.2 million ($0.09 per diluted share) related to the relocation of the Company s largest distribution facility, severance costs associated with staffing reductions in Europe and acquisition-related charges.

(b) In 2006, the Company recorded interest income of $6.9 million ($0.10 per diluted share) as a result of tax settlements in the U.S. and Canada. In the fourth quarter of 2000, the Company incurred an $8.8 million charge ($0.12 per diluted share) relating to the discount on the initial non-recourse sale of accounts receivable to Anixter Receivables Corporation (ARC), an unconsolidated wholly owned special purpose corporation in connection with an accounts receivable securitization program. The Company expected to substantially recover this amount upon termination of the program. In the intervening years, due to a decline in the amount of accounts receivable in the program, $2.4 million of the initial discount costs had been recouped. Due to the accounting consolidation of ARC at the end of the third quarter of 2004, the Company recovered the remaining $6.4 million ($0.10 per diluted share) of discount costs during the fourth quarter of 2004. As a result of the consolidation of ARC, working capital, total assets and debt increased in 2004 by approximately $222.2 million, $168.3 million and $161.8 million, respectively.

(c) On June 28, 2005, the Company retired all of its remaining convertible notes due 2020 for $69.9 million and recorded a charge of $1.2 million ($0.02 per diluted share) related to the write-off of deferred financing costs. In 2004, the Company recorded a charge of $0.7 million ($0.01 per diluted share) related to the write-off of deferred financing costs associated with the early termination and refinancing of the Company s $275.0 million revolving credit facility.

(d) An extraordinary gain of $4.1 million ($0.11 per diluted share) was recorded in 2004 associated with the receipt of $4.7 million of cash for a 1983 matter related to Itel Corporation, the predecessor of the Company.

(e) For the year ended January 2, 2009, net income includes a pre-tax loss of $18.0 million, $13.1 million, net of tax ($0.34 per diluted share) related to foreign exchange losses due to both a sharp change in the relationship between the U.S. dollar and all of the major currencies in which the Company conducts its business and, for several weeks, highly volatile conditions in the foreign exchange markets. For the year ended January 2, 2009, net income also includes a pre-tax loss of $6.5 million, $4.0 million, net of tax ($0.10 per diluted share) related to the decline in the cash surrender value inherent in a series of Company owned life insurance policies associated with the Company sponsored deferred compensation program and $1.6 million ($0.04 per diluted share) of net tax benefits related to the reversal of valuation allowances associated with certain foreign net operating loss carryforwards in the first quarter of 2008. For the year ended December 28, 2007, the Company recorded $11.8 million ($0.28 per diluted share) of net income primarily related to foreign tax benefits as well as a tax settlement in the U.S. For the year ended December 29, 2006, the Company recorded $27.0 million ($0.63 per diluted share) of net income primarily related to tax settlements in the U.S. and Canada and the initial establishment of deferred taxes associated with its foreign operations. For the year ended December 30, 2005, net income includes a reduction in tax expense of $1.4 million ($0.03 per diluted share) related to a favorable income tax ruling in Europe and an additional tax provision of $7.7 million ($0.19 per diluted share) related to the repatriation of accumulated foreign earnings.

(f) Stockholders equity reflects treasury stock purchases of $104.6 million and $244.8 million for the year ended January 2, 2009 and December 28, 2007, respectively, all of which have been retired. The Company did not purchase any treasury shares in 2006, 2005 or 2004. As of December 30, 2005 and December 31, 2004,

stockholders equity reflects the 2005 and 2004 special dividends declared of $4.00 and $1.50 per common share, respectively, as a return of excess capital to shareholders. Dividends declared in 2005 and 2004 were approximately $156.1 million and $55.8 million, respectively.

(g) 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 December 30, 2006 opening balance of retained earnings. In 2006, upon the adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 158, *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans* (an amendment of FASB Statements No. 87, 88, 106, and 132(R)) (SFAS No. 158)

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the Company recorded the amount of its unfunded pension liability on its balance sheet resulting in an increase of $25.9 million in total pension liabilities. The pension liability adjustment was offset by a net reduction in stockholders equity of $19.0 million and deferred tax assets of $6.9 million. In accordance with SFAS No. 158, the financial statements for periods prior to the date of adoption have not been restated.

(h) At January 2, 2009, December 28, 2007 and December 29, 2006, short-term debt primarily consists of the accounts receivable securitization facility. During the first quarter of 2007, the Company issued $300 million of convertible senior notes due 2013. During the first quarter of 2005, the Company s primary operating subsidiary, Anixter Inc., issued $200 million of 5.95% Senior Notes due 2015, which are fully and unconditionally guaranteed by the Company. For more information on short-term and long-term debt, see Note 4. Debt in the Notes to the Consolidated Financial Statements.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management s Discussion and Analysis of Financial Condition and Results of Operations 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. These statements can be identified by the use of forward-looking terminology such as believe, expects, intends, anticipates, completes, estimates, plans, p should, may or the negative thereof or other variations thereon or comparable terminology 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 under Item 1A. Risk Factors. The information contained in this financial review should be read in conjunction with the consolidated financial statements, including the notes thereto, on pages 36 to 70 of this Report.

This report includes certain financial measures computed using non-Generally Accepted Accounting Principles (non-GAAP) components as defined by the Securities and Exchange Commission (SEC). The Company believes this information is useful to investors in order to provide a better understanding of the organic growth trends of the Company on a comparable basis. Management does not use these non-GAAP financial measures for any purpose other than the reason stated above.

Acquisition of Businesses

In August of 2008, the Company acquired the assets and operations of QSN Industries, Inc. (QSN) and all of the outstanding shares of Quality Screw de Mexico SA (QSM). QSN is based near Chicago, Illinois and QSM is based in Aguascalientes, Mexico. In the fiscal month of September 2008, the Company acquired all of the outstanding shares of Sofrasar SA (Sofrasar) and partnership interests and shares in Camille Gergen GmbH & Co, KG and Camille Gergen Verwaltungs GmbH (collectively Gergen) from the Gergen family and management of the entities. Sofrasar is headquartered in Sarreguemines, France and Gergen is based in Dillingen, Germany. In October of 2008, the Company acquired all the assets and operations of World Class Wire & Cable Inc. (World Class), a Waukesha, Wisconsin based distributor of electrical wire and cable. The Company paid approximately $180.3 million in cash and assumed approximately $18.7 million in debt for the five companies.

In April and May of 2007, respectively, the Company acquired all of the outstanding shares of Total Supply Solutions Limited (TSS), a Manchester, U.K.-based fastener distributor, and Eurofast SAS (Eurofast), an aerospace fastener distributor based in France. The Company paid approximately $35.2 million for these businesses.

In May and October of 2006, respectively, the Company acquired all of the outstanding shares of IMS, Inc. (IMS), a wire and cable distributor in the U.S., and MFU Holding S.p.A. (MFU), a fastener distributor based in Italy. The Company also acquired a small company in Eastern Europe during 2006. The Company paid approximately $93.8 million for these businesses ($90.5 million in 2006 and additional payments of $3.3 million in 2007) and assumed debt of $5.8 million.

As a result of the acquisitions described above, sales were favorably affected in 2008 and 2007 by $87.7 million and $125.5 million, respectively, as compared to the prior year. Operating income was favorably affected in 2008 and 2007 by $3.1 million and $12.1 million, respectively, as compared to the prior year.

All of the acquisitions described herein were funded by cash generated from operations, additional borrowings or a combination thereof. These acquisitions were accounted for as purchases and their respective results of operations are included in the consolidated financial statements from the dates of acquisition. Had these acquisitions occurred at the beginning of the year of each acquisition, the Company s operating results would not have been significantly different. Intangible amortization expense is expected to be approximately $10.6 million per year for the next five years.

Financial Liquidity and Capital Resources

Overview

As a distributor, the Company s use of capital is largely for working capital to support its revenue base. Capital commitments for property, plant and equipment are limited to information technology assets, warehouse equipment, office furniture and fixtures and leasehold improvements, since the Company operates almost entirely from leased facilities. Therefore, in any given reporting period, the amount of cash consumed or generated by operations will primarily be due to changes in working capital as a result of the rate of sales increase or decline.

In periods when sales are increasing, the expanded working capital needs will be funded first by cash from operations, secondly from additional borrowings and lastly from additional equity offerings. Also, the Company will, from time to time, issue or retire borrowings or equity in an effort to maintain a cost-effective capital structure consistent with its anticipated capital requirements. In periods when sales are decreasing, the Company will have improved cash flows due to reduced working capital requirements. During such periods, the Company will use the expanded cash flow to reduce the amount of leverage in its capital structure until such time as sales growth resumes.

Liquidity is an area of intense focus throughout the investment community and the Company believes it has a strong liquidity position. During 2008, the Company generated $125.0 million of cash flow from operations which along with net borrowings of $196.3 million was used to fund capital expenditures of $32.7 million, acquisitions of $180.3 million and share repurchases of $104.6 million. At the end of the year the Company s debt-to-total capital ratio was 53.0%, above our target range of 45% to 50%. Certain debt agreements entered into by the Company s operating subsidiaries contain various restrictions, including restrictions on payments to the Company. These restrictions have not had, nor are expected to have, an adverse impact on the Company s ability to meet its cash obligations. At the end of fiscal 2008, the Company had $248.2 million of available borrowing capacity under its existing bank agreements.

While the Company s ongoing strategy remains consistent and focused on the long term, the evolving macro environment necessitated a shift in management s immediate focus in the fourth quarter. The Company moved from concentrating primarily on sales and earnings growth to focusing on cost and working capital management. This shift in emphasis recognizes that with appropriate working capital management adjustments to address the slower economic environment, the Company s business can be a strong generator of cash.

With an expectation that global recession conditions will persist for some portion or all of 2009, the Company anticipates that 2009 sales will be less than those reported for 2008. As a result, the improved cash flow that will be derived from a combination of earnings and lower working capital requirements will be used to reduce borrowings and provide improved liquidity. The Company believes that earnings, additional cash flow generated as a result of lower working capital requirements due to expected lower near-term sales growth as a result of the global recession, and approximately $248 million in available, committed, unused credit lines will be sufficient to fund operations, as well as the potential put of its 3.25% zero coupon convertible Notes due 2033 in July 2009 for $170.3 million or an inability to renew its accounts receivable securitization facility in September 2009. At the end of 2008, the Company had $195 million of borrowings under this facility. The Company does not anticipate that it will pursue acquisitions or any significant return of capital to shareholders until such time as the current economic conditions show clear signs of improvement and the capital markets return to a more normalized state of operation.

Cash Flow

Year ended January 2, 2009: Net cash provided by operating activities was $125.0 million in 2008 compared to $138.2 million in 2007. The decrease in cash provided by operating activities was primarily due to lower net income offset by less incremental working capital requirements in 2008 than 2007 due to a lower level of organic sales growth.

Consolidated net cash used in investing activities increased to $212.7 million in 2008 from $73.9 million in 2007. The Company spent $180.3 million (net of cash acquired) in 2008 to acquire QSN, QSM, Sofrasar, Gergen and World Class. During 2007, the Company made additional payments of $3.3 million related to the businesses acquired in 2006 and spent $35.2 million (net of cash acquired) to purchase TSS and Eurofast. Capital expenditures decreased

$3.4 million to $32.7 million during 2008 from $36.1 million in 2007. Capital expenditures are expected to be approximately $30.0 million in 2009 as the Company continues to invest in the consolidation of certain acquired facilities in North America and Europe, invests in system upgrades and new software to support its infrastructure and warehouse equipment to meet expanding growth of the business.

Net cash provided by financing activities was $110.8 million in 2008 compared to net cash used of $73.0 million in 2007. In 2008, the Company increased borrowings, primarily bank revolving lines of credit and borrowings under the accounts receivable securitization facility by $196.3 million compared to a decrease of $112.8 million in 2007. The Company repurchased approximately 1.7 million of its outstanding common shares during 2008 at a total cost of $104.6 million. Cash from the excess income tax benefit associated with employee stock plans was $10.2 million in 2008 compared to $16.3 million in 2007. Proceeds from the issuance of common stock relating to the exercise of stock options were $10.1 million in 2008 compared to $11.7 million in 2007. In 2008, the Company incurred $0.5 million of issuance costs in connection with amending its accounts receivable securitization facility. In 2007, the Company issued $300 million of 1% Convertible Senior Notes due 2013 (Notes due 2013) and amended its accounts receivable securitization and revolving credit facilities. Issuance costs related to the Notes due 2013 and amendments to the accounts receivable securitization and revolving credit facilities totaled $8.5 million in 2007. The net proceeds of $292.5 million from the 2007 issuance of the Notes due 2013 were primarily used to purchase shares of the Company s common stock ($110.4 million) and fund the net cost of the purchased call option and sold warrant transactions ($36.8 million) which were entered into concurrently with the issuance of the Notes due 2013. Prior to the note offering described above, the Company purchased shares of its common stock at a total cost of $52.3 million. During the fourth quarter of 2007, the Company purchased additional shares of its common stock at a total cost of $82.1 million ($3.0 million of which was accrued at year end 2007).

Year ended December 28, 2007: Net cash provided by operating activities was $138.2 million in 2007, compared to $40.0 million net cash used in operating activities in 2006. The increase in cash provided by operating activities was primarily related to changes in working capital (accounts receivable, inventory, accounts payable and other current assets and liabilities). In 2007, working capital changes represented a use of operating cash of $139.8 million as compared to $286.8 million in 2006. Net income also contributed to the increase in cash provided by operating activities. Net income increased $44.2 million in 2007 as compared to 2006.

Consolidated net cash used in investing activities decreased to $73.9 million in 2007 from $115.3 million in 2006. The Company spent $90.5 million (net of cash acquired) in 2006 to acquire MFU, IMS and a small business in Eastern Europe. During 2007, the Company made additional payments of $3.3 million related to the businesses acquired in 2006 and spent $35.2 million (net of cash acquired) to purchase TSS and Eurofast. Capital expenditures increased $11.1 million to $36.1 million during 2007 from $25.0 million in 2006 as the Company continued to invest in the consolidation of certain acquired facilities in North America and Europe, invested in system upgrades and new software to support its infrastructure and warehouse equipment to meet expanding growth of the business.

Net cash used in financing activities was $73.0 million in 2007 compared to net cash provided by financing activities of $184.4 million in 2006. In 2007, the Company issued the Notes due 2013 and amended its accounts receivable securitization and revolving credit facilities. Issuance costs related to the Notes due 2013 and amendments to the accounts receivable securitization and revolving credit facilities totaled $8.5 million in 2007. The net proceeds of $292.5 million from the issuance of the $300.0 million Notes due 2013 were used to purchase shares of the Company s common stock ($110.4 million) and fund the net cost of the purchased call option and sold warrant transactions ($36.8 million) which were entered into concurrently with the issuance of the Notes due 2013. Prior to the note offering described above, the Company purchased shares of its common stock at a total cost of $52.3 million. During the fourth quarter of 2007, the Company purchased additional shares of its common stock at a total cost of $82.1 million ($3.0 million of which was accrued at year end 2007). In 2007, the Company decreased borrowings, primarily bank revolving lines of credit and borrowings under the accounts receivable securitization facility, by $112.8 million compared to an increase of $157.2 million in 2006. Proceeds from the issuance of common stock relating to the exercise of stock options were $11.7 million in 2007 compared to $16.1 million in 2006. The 2007 and 2006 cash provided by financing activities include $16.3 million and $12.0 million, respectively, of cash from the income tax benefit associated with employee stock plans.

Financings

Convertible Notes

The Company s $300.0 million 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 represented a 15 percent conversion premium based on the last reported sale price of $55.20 per share of the Company s common stock on the date of issue. The Notes due 2013 are convertible, under certain circumstances (as described in the Notes to the Consolidated Financial Statements), 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. Based on the Company s stock price at the end of 2008, the Notes due 2013 are not

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currently convertible. 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 Company s 3.25% zero coupon Convertible Notes due 2033 (Notes due 2033) have an aggregate principal amount at maturity of $369.1 million. The principal amount at maturity of each note due 2033 is $1,000. Based on the Company s stock price at the end of 2008, the Notes due 2033 are not currently convertible. However, at the end of 2007, the Notes due 2033 were convertible based on the Company s stock price. In periods when the Notes due 2033 are convertible, any conversion will be settled in cash up to the accreted principal amount. If the conversion value exceeds the accreted principal amount of the Notes due 2033 at the time of conversion, the amount in excess of the accreted value will be settled in stock. The Company may redeem the Notes due 2033, in whole or in part, on or after July 7, 2011 for cash at the accreted value. Additionally, holders may require the Company to purchase, in cash, all or a portion of their Notes due 2033 on the following dates:

July 7, 2009 at a price equal to $461.29 per Convertible Note due 2033;
July 7, 2011 at a price equal to $492.01 per Convertible Note due 2033;
July 7, 2013 at a price equal to $524.78 per Convertible Note due 2033;
July 7, 2018 at a price equal to $616.57 per Convertible Note due 2033;
July 7, 2023 at a price equal to $724.42 per Convertible Note due 2033; and
July 7, 2028 at a price equal to $851.13 per Convertible Note due 2033.

The Notes due 2013 and the Notes due 2033 are structurally subordinated to the indebtedness of Anixter Inc. Although the Notes due 2033 were convertible at the end of 2007 and holders may require the Company to purchase their Notes due 2033 on July 7, 2009 for $170.3 million, they were classified as long-term at January 2, 2009 and December 28, 2007 as the Company had the intent and ability to refinance the accreted value under existing long-term financing agreements. The book value of the Notes due 2033 was $167.5 million and $162.2 million at January 2, 2009 and December 28, 2007, respectively.

For further information regarding the convertible notes, see Note 2. Income Per Share and Note 4. Debt in the notes to the consolidated financial statements.

Revolving Lines of Credit

At the end of fiscal 2008, the Company had approximately $248 million in available, committed, unused credit lines with financial institutions that have investment-grade or above credit ratings. As such, the Company expects to have access to this availability based on its assessment of the viability of the associated financial institutions which are party to these agreements. Long-term borrowings under the following credit facilities totaled $250.0 million and $275.0 million at January 2, 2009 and December 28, 2007, respectively.

At January 2, 2009, the Company s primary liquidity source is the $450 million (or the equivalent in Euro), 5-year revolving credit agreement at Anixter Inc. maturing in April of 2012. At January 2, 2009, long-term borrowings under this facility were $218.2 million as compared to $242.9 million of outstanding long-term borrowings at December 28, 2007. The pricing on the first $350 million of borrowings is LIBOR plus 60 basis points and the facility fee payable is 15 basis points. The pricing for the additional $100 million of borrowings is LIBOR plus 82.5 basis points and the facility fee payable is 17.5 basis points. Facility fees totaled $0.7 million in both 2008 and 2007 and $0.8 million in 2006 and were included in interest expense in the consolidated results of operations.

The agreement, which is guaranteed by the Company, contains financial covenants that restrict the amount of leverage and set a minimum fixed charge coverage ratio. The Company is in compliance with all of these covenant ratios and believes that there is adequate margin between the covenant ratios and the actual ratios given the current trends of the business. Under the leverage ratio, as of January 2, 2009, the total availability of all revolving lines of credit at Anixter Inc. would be permitted to be borrowed. See Exhibit 10.24 to this Annual Report on Form 10-K for definitions of the covenant ratios.

Anixter Canada Inc. s $40.0 million (Canadian dollar) unsecured revolving credit facility, maturing in April of 2012, is used for general corporate purposes. 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 currently 15.0 basis points. At January 2, 2009 and December 28, 2007,

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$16.4 million and $20.4 million (U.S. dollar) was borrowed, respectively, under the facility and included in long-term debt outstanding.

Excluding the primary revolving credit facility and the $40.0 million (Canadian dollar) facility at January 2, 2009 and December 28, 2007, certain subsidiaries had long-term borrowings under other bank revolving lines of credit and miscellaneous facilities of $15.4 million and $11.7 million, respectively.

Notes Due 2015

Anixter Inc. has $200.0 million of Senior Notes due 2015 (Notes due 2015), which are fully and unconditionally guaranteed by the Company. Interest of 5.95% on the Notes due 2015 is payable semi-annually on March 1 and September 1 of each year.

Short-term Borrowings

As of January 2, 2009 and December 28, 2007, the Company s short-term debt outstanding was $249.5 million and $84.1 million, respectively. Short-term debt consists primarily of the funding related to the accounts receivable securitization facility, as the program is set to expire in September 2009.

Anixter s accounts receivable securitization program was renewed in September 2008. The renewal increased the size of the facility from $225.0 million to $255.0 million. Under Anixter s accounts receivable securitization program, the Company sells, on an ongoing basis without recourse, a majority of the accounts receivable originating in the United States to Anixter Receivables Corporation (ARC), a wholly-owned, bankruptcy-remote special purpose entity. The assets of ARC are not available to creditors of Anixter in the event of bankruptcy or insolvency proceedings. ARC in turn sells an interest in these receivables to a financial institution for proceeds of up to $255.0 million. ARC is consolidated for accounting purposes only in the financial statements of the Company. The average outstanding funding extended to ARC during 2008 and 2007 was approximately $144.3 million and $112.9 million, respectively.

Shelf Registration

On September 22, 2008, the Company and its primary operating subsidiary, Anixter Inc., filed a shelf registration statement with the Securities and Exchange Commission to offer from time to time Anixter Inc. debt securities, guaranteed by the Company. The registration became effective immediately.

Interest Expense

Consolidated interest expense was $48.0 million, $45.2 million and $38.8 million for 2008, 2007, and 2006, respectively. The increase in interest expense is primarily due to a combination of higher debt levels as a result of debt assumed in recent acquisitions, the working capital requirements associated with organic growth, the repurchase of shares completed during 2008 as well as an additional 53rd week in fiscal 2008. Partially offsetting the increase in borrowings have been refinancings, particularly the issuance of $300.0 million of 1% senior convertible notes in the first quarter of 2007, that have lowered the Company s average cost of borrowings. Interest rates on approximately 68.5% of the Company s borrowings were fixed (either by their terms or through hedging contracts) at the end of 2008. The weighted-average cost of borrowings declined to 4.0% in 2008 from 4.4% and 5.3% in 2007 and 2006, respectively. The Company s debt-to-total capitalization at January 2, 2009 was 53.0% as compared to 49.4% at December 28, 2007. The impact of interest rate agreements was minimal in 2008, 2007 and 2006.

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Contractual Cash Obligations and Commitments

The Company has the following contractual cash obligations as of January 2, 2009:

	Payments due by period						
	2009	2010	2011	2012 (In millions)	2013	Beyond 2013	Total
Debt[a]	$ 249.5	$ 1.7	$ 0.3	$ 411.1	$ 300.0	$ 204.4	$ 1,167.0
Contractual Interest[b]	32.9	27.8	41.9	19.0	12.6	15.3	149.5
Purchase Obligations[c]	401.4	147.2	31.1	1.2			580.9
Operating Leases	61.8	51.7	42.1	34.1	25.8	84.8	300.3
Deferred Compensation Liability[d]	1.2	2.9	3.9	2.5	2.2	27.0	39.7
Pension Plans[e]	11.1						11.1
Total Obligations	$ 757.9	$ 231.3	$ 119.3	$ 467.9	$ 340.6	$ 331.5	$ 2,248.5

Notes:

a *Included in debt are capital lease obligations of $0.7 million, of which approximately $0.2 million are due in each period from 2009 to 2011. The securitization program is set to expire within one year of January 2, 2009 and the outstanding balance of $195.0 million was classified as short-term. At January 2, 2009, Anixter had $243.6 million of borrowings under its long-term revolving credit facilities maturing in April of 2012. Although the Notes due 2033 were not convertible at the end of 2008, holders of the Notes due 2033 may require the Company to purchase, in cash, all or a portion of their convertible notes in July 2009 at the accreted value. The Company has the intent and ability to refinance the accreted value of the Notes due 2033 with existing long-term financing agreements available at January 2, 2009. The book value of the Notes due 2033 was $167.5 million and will accrete to $186.5 million in April of 2012 when the Company s long-term revolving credit facilities mature. The $300.0 million Notes due 2013 were not convertible at the end of 2008. The $200.0 million Notes due 2015 are reflected in the column Beyond 2013.*

b *Interest payments on debt outstanding at January 2, 2009 through maturity. For variable rate debt, the Company computed contractual interest payments based on the borrowing rate at January 2, 2009.*

c *Purchase obligations primarily consist of purchase orders for products sourced from unaffiliated third party suppliers, in addition to commitments related to various capital expenditures. Many of these obligations may be cancelled with limited or no financial penalties.*

d *A non-qualified deferred compensation plan was implemented on January 1, 1995. The plan provides for benefit payments upon retirement, death, disability, termination or other scheduled dates determined by the participant. At January 2, 2009, the deferred compensation liability was $39.7 million. In an effort to ensure that adequate resources are available to fund the deferred compensation liability, the Company has purchased variable, separate account life insurance policies on the plan participants with benefits accruing to the Company. At January 2, 2009, the cash surrender value of these company life insurance policies was $28.4 million.*

e The majority of the Company s various 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 the plans. The Company s policy is to fund these plans as required by the Employee Retirement Income Security Act, the Internal Revenue Service and local statutory law. At January 2, 2009, the current portion of the Company s pension liability of $80.8 million was $0.4 million. The Company currently estimates that it will be required to contribute $11.1 million to its foreign and domestic pension plans in 2009. The Company also is expected to make $4.5 million of discretionary contributions to its domestic plans in 2009. Due to the future impact of various market conditions, rates of return and changes in plan participants, the Company cannot provide a meaningful estimate of its future contributions beyond 2009.

Income Taxes

Various foreign subsidiaries of the Company had aggregate cumulative net operating loss (NOL) carryforwards for foreign income tax purposes of approximately $106.5 million at January 2, 2009, which are subject to various provisions of each respective country. Approximately $16.2 million of this amount expires between 2009 and 2018, and $90.3 million of the amount has an indefinite life. Of the $106.5 million NOL carryforwards of foreign subsidiaries, $71.8 million relates to losses that have already provided a tax benefit in the U.S. due to rules permitting flow-through of such losses in certain circumstances. Without such losses included, the cumulative NOL carryforwards at January 2, 2009 were approximately $34.7 million, which are subject to various provisions of each respective country. Approximately $10.7 million of this amount expires between 2009 and 2018 and $24.0 million of the amount has an indefinite life. The deferred tax asset and valuation allowance have been adjusted to reflect only the carryforwards for which the Company has not taken a tax benefit in the United States.

Results of Operations

Executive Overview and Outlook

The Company competes with distributors and manufacturers who sell products directly or through existing distribution channels to end users or other resellers. The Company s relationship with the manufacturers for which it distributes products could be affected by decisions made by these manufacturers as the result of changes in management or ownership as well as other factors. Although relationships with suppliers are good, the loss of a major supplier could have a temporary adverse effect on the Company s business, but would not have a lasting impact since comparable products are available from alternate sources. In addition to competitive factors, future performance could be subject to economic downturns. For further information, see Item 1A. Risk Factors.

In 2008, recessionary economic conditions produced decelerating year-on-year growth rates from those of the past few years. The Company nonetheless reported record sales for the year of $6,136.6 million, which was an increase of 4.8% versus the prior year. This growth was aided by acquisitions that added $87.7 million to sales offset by a slightly stronger U.S. dollar throughout the year that decreased sales by $1.1 million. Excluding acquisitions and foreign exchange effects, sales in 2008 were up 3.4% versus the prior year. While the Company experienced solid growth during the first half of 2008, recessionary economic conditions negatively impacted sales growth rates during the second half of the year. Although the sales growth in the third and fourth quarters of 2008 was modest due to a challenging global economic environment, sequential organic sales declined approximately 3% between the third and fourth quarters of 2008 which is consistent with historical and expected sequential organic sales trends between these two periods.

Although fiscal 2008 was challenging due to the recessionary economic conditions, progress was made on the Company s major initiatives during 2008. Specifically, the Company made progress on the initiatives to grow the Company s security business, drive organic growth in the OEM supply business, initiate a factory automation network sales effort, add to the supply chain services offering, enlarge the geographic presence of the electrical wire and cable business, expand the Company s product offering and continue to expand business in the Emerging Markets.

Operating income in 2008 was $391.9 million versus $439.1 million in 2007. Operating margins were 6.4% in 2008 as compared to 7.5% in 2007. While operating earnings through the first nine months showed year-on-year growth and operating margins approximated the record operating margins achieved for all of 2007, an acceleration of the macro economic decline in the fourth quarter resulted in a number of negatives. A significant slowdown in sales activity in the last few months of 2008 produced operating de-leveraging in the fourth quarter that resulted in a decline in operating margins of approximately 90 basis points as compared to the first nine months of the year. Operating income was further impacted by the following pre-tax charges in 2008:

The Company recorded a non-cash charge in North America of $4.2 million ($2.6 million, net of tax) related to amendments made to the employment contract of the Company s recently retired Chief Executive Officer (CEO) which extended the terms of his non-competition and non-solicitation restrictions in exchange for extended vesting and termination provisions of previously granted equity awards.

Deteriorating credit markets and economic conditions resulted in two large customer bankruptcies, NetVersant Solutions Inc. and Nortel Networks Inc., which resulted in bad debt losses of $23.4 million ($14.4 million, net of tax) in North America and $0.7 million ($0.5 million, net of tax) in Europe.

In response to the substantially lower sales levels during the fourth quarter, the Company undertook a series of actions that resulted in the recognition of $2.7 million of expense ($1.7 million, net of tax) in North America and $5.4 million ($3.7 million, net of tax) in Europe related to severance costs and facility lease write-offs. These actions are expected to reduce future operating costs by approximately $14.7 million annually.

During the fourth quarter, the Company also recorded a $2.0 million lower of cost or market inventory adjustment ($1.4 million, net of tax) in Europe with respect to certain wire and cable product lines where the depth of current inventory positions likely exceed market inventory levels such that it is probable that by the time the Company sells through its current inventory of those products it will not be able to realize a profit on those products.

Excluding the items outlined above of $38.4 million, operating income in 2008 was $430.3 million, which represents a slight decrease of 2.0% as compared to 2007, while operating margins were 7.0% versus 7.5% in 2007.

In addition to the after-tax impact of $24.3 million for the above mentioned items, net income for 2008 was also impacted by the following items:

In 2008, the Company recorded foreign exchange losses of $18.0 million ($13.1 million after-tax) due to both a sharp change in the relationship between the U.S. dollar and all of the major currencies in which the Company conducts its business and, for several weeks, a period of highly volatile conditions in the foreign exchange markets. Specifically, during the latter part of 2008 the U.S. dollar reversed its multi-year slide against the world s major currencies, with as much as, or more than, a 20 percent change in value against individual foreign currencies in the period of one month. While the Company has had historically effective hedging programs to mitigate exchange risk in its foreign operations this extreme volatility presented the Company with unprecedented challenges in managing this risk.

The combined effect of valuation declines in both the equity and bond markets resulted in a $6.5 million decline ($4.0 million, net of tax) in the cash surrender value inherent in a series of Company owned life insurance policies associated with the Company sponsored deferred compensation program.

Net tax benefits of $1.6 million related to the reversal of valuation allowances associated with certain net operating loss carryforwards in the first quarter of 2008.

As a result of these items and the above outlined items affecting operating income (collectively, the 2008 Unusual Items), net income in 2008 was $195.7 million, or $5.07 per diluted share, compared to $253.5 million, or $6.00 per diluted share, in the prior year period. Prior year net income included $11.8 million of net income related to foreign tax benefits and finalization of prior year tax returns. Excluding the 2008 Unusual Items, net income would have been $235.5 million as compared to 2007 net income of $241.7 million, exclusive of the identified tax benefits.

Diluted earnings per share for fiscal 2008, inclusive of $1.03 per diluted share related to the 2008 Unusual Items, declined 15.5% to $5.07 per diluted share from $6.00 per diluted share in the prior year, which included a benefit of $0.28 per diluted share related to foreign taxes and finalization of prior year tax returns. Excluding the effect of the 2008 Unusual Items, net income per diluted share would have been $6.10 as compared to the $5.73 per diluted share in 2007, exclusive of the identified tax benefits.

Primarily as a result of the Company s share repurchases during the last year, the diluted weighted-average common shares declined by 8.5% during 2008 versus the corresponding prior year period which produced a favorable impact on net income per diluted share of $0.22.

The Company s operating results can be affected by changes in prices of commodities, primarily copper, which are components in some of the products sold. Generally, as the costs of current inventory purchases increase due to higher commodity prices, the Company s mark-up percentage to customers remains relatively constant, this inflationary effect results in higher sales revenue and gross profit. In addition, existing inventory purchased at previously lower prices and sold as prices increase results in a higher gross profit margin. Conversely, a decrease in commodity prices in a short period of time would have the opposite effect, negatively affecting financial results. Over the past three years, the Company has benefited from historically high copper prices on its financial performance. Importantly, however, there is no exact measure of the effect of higher copper prices, as there are thousands of transactions in any given quarter, each of which has various factors involved in the individual pricing decisions. Market-based copper prices averaged approximately $3.13 per pound during 2008 ($3.59 per pound during the first three quarters of the year and $1.76 during the fourth quarter of the year) compared to $3.23 per pound in 2007. Despite the significant drop in spot market prices for copper in the fourth quarter of 2008, for the full year, copper price fluctuations had a limited impact on product prices. While certain products in certain markets dropped in price to reflect the lower raw material costs, for much of the market, pricing in the final months of the year continued to reflect higher priced copper content in inventory throughout the supply chain. As the supply chain replaces it current high priced inventory with newer inventory that reflects more current lower copper prices, the deflationary effects of this will be seen more dramatically beginning in 2009.

2009 Outlook

As we look to 2009, there are a number of factors that will likely lead to the Company reporting lower sales and earnings than in 2008. In late 2008, the U.S. dollar strengthened considerably against most foreign currencies. With approximately 36 percent of the Company s 2008 sales denominated in currencies other than the U.S. dollar it is expected that, if exchange rates stay at their comparative 2008 year-end levels, then reported 2009 sales and earnings from our foreign operations will translate to lower amounts than reported in 2008. In addition, in the fourth quarter of 2008, the average spot price of copper dropped by about 50 percent from the average level of the first three quarters of 2008. While this drop in spot prices had little effect on fourth quarter 2008 results, it is assumed that, if the average spot price for copper remains near the 2008 year-end level through 2009, it will have deflationary effects on our reported electrical wire and cable sales, and the earnings associated with those sales, throughout the coming year. Lastly, the consensus economic forecasts are for a decline in global Gross Domestic Product (GDP) in 2009 versus 2008, but with considerable variation in opinion on how the year-on-year comparisons will trend by quarter.

The combination of the above factors creates considerable uncertainty about the outlook for the full year of 2009 with the level of uncertainty increasing later in the year because of a lack of visibility on these key factors. Further, significant changes in foreign exchange rates, copper prices and the GDP outlook during 2009 may either negatively or positively affect reported sales and earnings depending on the direction and degree of change in these factors. As of the date of this filing, the near term outlook is somewhat clearer given the comparative stability of foreign exchange rates and copper prices to those seen at year-end. As such, the Company expects that first quarter sales and operating income will show year-on-year declines that are greater than those seen in the fourth quarter 2008 year-on-year comparisons, exclusive of the unusual expense items reported in the fourth quarter of 2008. The greater decline in sales and operating income are anticipated to be largely due to the deflationary effects of the fourth quarter declines in copper prices being reflected in product prices beginning in the first quarter.

2008 versus 2007

Consolidated Results of Operations

	Years Ended		
	January 2, 2009	**December 28, 2007**	**Percent Change**
	(In millions)		
Net sales	$ 6,136.6	$ 5,852.9	4.8%
Gross profit	$ 1,442.8	$ 1,413.3	2.1%
Operating expenses	$ 1,050.9	$ 974.2	7.9%
Operating income	$ 391.9	$ 439.1	(10.7%)

Net Sales: The Company s net sales during 2008 increased $283.7 million, or 4.8%, to $6,136.6 million from $5,852.9 million in 2007. A series of recently-completed acquisitions accounted for $87.7 million of the increase while slightly unfavorable effects of foreign exchange rates on a year-to-date basis reduced sales $1.1 million. Excluding the acquisitions and the favorable effects of foreign exchange rates, the Company s net sales increased $197.1 million, or approximately 3.4%, in 2008 as compared to the prior year. The factors driving the Company s organic growth were consistent with those the Company has seen during the past couple of years. The Company experienced strong year-on-year sales in the emerging markets, North America OEM supply business and strong growth in the European wire and cable business outside the U.K. The Company also experienced continued success in expanding its presence in the security market and geographic expansion of its electrical wire and cable presence in Europe.

Gross Margins: Gross margins decreased in 2008 to 23.5% from 24.1% in 2007 mainly due to the effects of lower supplier volume incentives that resulted from lower year-on-year sales growth rates and a sales mix shift.

Operating Expenses: Operating expenses increased $76.7 million, or 7.9%, in 2008 from 2007. The 2008 operating expenses include $36.4 million related to the 2008 Unusual Items and $22.6 million related to a series of recently-completed acquisitions. Changes in foreign exchange rates decreased operating expenses by $3.6 million as compared to the corresponding period in 2007. In addition, the extra 53rd week in 2008 increased operating expenses an estimated $6.5 million as fiscal 2007 was a 52 week fiscal year. Excluding the operating expenses related to the 2008 Unusual Items, acquisitions, the effects of foreign exchange rates and the extra 53rd week in fiscal 2008, operating expenses increased approximately $14.8 million, or 1.5%, primarily due to variable costs associated with the 3.4% organic growth in sales. The low rate of expense growth also reflects the benefit of lower management incentive expense due to the Company s earnings being less than the incentive plan targets. Core operating expenses remain very tightly controlled relative to sales growth so that the Company can continue to invest in its strategic initiatives which include growing the security business, expanding the geographic presence of the electrical wire and cable business in Continental Europe and the Middle East, developing a presence in the industrial automation market, adding to our supply chain services offering and continuing to expand business in the Emerging Markets.

Operating Income: Operating margins were 6.4% in 2008 as compared to 7.5% in 2007. Operating income of $391.9 million decreased $47.2 million, or 10.7%, in 2008 as compared to $439.1 million in 2007. Excluding the 2008 Unusual Items of $38.4 million identified previously that relate to operating income, the decline in operating income would have been $8.8 million, representing a decline of 2.0% from the prior year, while operating margins would have been 7.0% as compared to 7.5% in 2007. Recent acquisitions and favorable foreign exchange effects added $3.1 million and $5.2 million, respectively to operating income. Excluding the 2008 Unusual Items, acquisitions and the favorable effects of foreign exchange rates, operating income decreased $17.1 million, or 3.9%, in 2008 as compared to 2007 as the effects of lower gross margins exceeded the benefits of good expense management.

Interest Expense: Consolidated interest expense was $48.0 million in 2008 as compared to $45.2 million in 2007. The weighted-average debt outstanding in 2008 was $1,165.5 million as compared to $1,030.6 million in 2007. The increase is driven by the working capital requirements associated with strong organic growth over the past year, the repurchase of approximately 8.0% of the Company s outstanding shares during the last year and a series of recently-completed acquisitions. With the interest rates on approximately 68.5% of the Company s borrowings fixed, average cost of borrowings were 4.0% in 2008 as compared to 4.4% in 2007.

Other, net:

	Years Ended January 2, 2009	Years Ended December 28, 2007
	(In millions)	
Foreign exchange (loss) gain	$ (18.0)	$ 1.9
Cash surrender value of life insurance policies	(6.5)	1.4
Other	(1.3)	0.3
	$ (25.8)	$ 3.6

In 2008, the Company recorded foreign exchange losses of $18.0 million due to both a sharp change in the relationship between the U.S. dollar and all of the major currencies in which the Company conducts its business and, for several weeks, a period of highly volatile conditions in the foreign exchange markets. Specifically, during the latter part of 2008, the U.S. dollar reversed its multi-year slide against the world s major currencies, with as much as, or more than, a 20 percent change in value against individual foreign currencies in the period of one month. While the Company has had historically effective hedging programs to mitigate exchange risk in its foreign operations, this extreme volatility presented the Company with unprecedented challenges in managing this risk. Further, the combined effect of declines in both the equity and bond markets resulted in a $6.5 million decline in the cash surrender value inherent in a series of Company owned life insurance policies associated with the Company sponsored deferred compensation program. In 2007, the Company recorded other interest income related to tax settlements in the U.S. and Canada.

Income Taxes: The consolidated tax provision decreased to $122.4 million in 2008 from $144.0 million in 2007, primarily due to a decrease in income before taxes. The effective tax rate for 2008 was 38.5% as compared to 36.2% in 2007. During 2008 and 2007, the Company recorded tax benefits of $1.6 million and $11.5 million, respectively, primarily related to foreign tax benefits as well as a tax settlement in the U.S. Excluding the tax benefits recorded in the years ended January 2, 2009 and December 28, 2007, the Company s tax rate was 39.0% and 39.1%, respectively. The year-on-year change in the core effective tax rate reflects changes in the country level mix of pre-tax earnings.

Net Income: Including the 2008 Unusual Items, net income in 2008 was $195.7 million, or $5.07 per diluted share, compared to $253.5 million, or $6.00 per diluted share, in the prior year period, which included $11.8 million of net income related to foreign tax benefits and finalization of prior year tax returns. Excluding the 2008 Unusual Items, net income would have been $235.5 million as compared to 2007 net income of $241.7 million, exclusive of the identified tax benefits. Diluted earnings per share for fiscal 2008, inclusive of $1.03 per diluted share related to the 2008 Unusual Items, declined 15.5% to $5.07 per diluted share from $6.00 per diluted share in the prior year, which included a benefit of $0.28 per diluted share related to foreign taxes and finalization of prior year tax returns. Excluding the effect of the 2008 Unusual Items, net income per diluted share would have been $6.10, or 6.5% higher, as compared to the $5.73 per diluted share in 2007, exclusive of the identified tax benefits.

North America Results of Operations

	Years Ended		
	January 2,	**December 28,**	**Percent**