# FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2011-11-07** | Period of Report: **2011-09-30**
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## FILER

**INTERLINE BRANDS, INC./DE**

CIK:**1292900**| IRS No.: **030542659** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-32380** | Film No.: **111184887**
SIC: **5070** Hardware & plumbing & heating equipment & supplies

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2011**

**or**

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

**For the transition period from to**

**Commission File Number: 001-32380**

# INTERLINE BRANDS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **03-0542659** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **701 San Marco Boulevard Jacksonville, Florida** | **32207** |
| (Address of principal executive offices) | (Zip code) |

**(904) 421-1400**
(Registrant' s telephone number, including area code)

**Not Applicable**
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ |
| Non-accelerated filer ☐<br>(Do not check if smaller reporting company) | Smaller reporting company ☐ |

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

Indicate the number of shares outstanding of each of the issuer' s classes of common stock, as of the latest practicable date. As of November 3, 2011, there were 32,084,503 shares of the registrant' s common stock outstanding (excluding 1,469,639 shares held in treasury), par value $0.01.

Table of Contents

**TABLE OF CONTENTS**

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Table of Contents

## PART I. FINANCIAL INFORMATION

### ITEM 1. Financial Statements

**INTERLINE BRANDS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**
**AS OF SEPTEMBER 30, 2011 AND DECEMBER 31, 2010**
**(in thousands, except share and per share data)**

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 85,128 | $ 86,981 |
| Short-term investments | – | 100 |
| Accounts receivable - trade (net of allowance for doubtful accounts of $7,310 and $9,088) | 149,925 | 122,619 |
| Inventory | 210,506 | 203,269 |
| Prepaid expenses and other current assets | 23,545 | 28,816 |
| Income taxes receivable | 853 | 2,086 |
| Deferred income taxes | 15,422 | 17,381 |
| Total current assets | 485,379 | 461,252 |
| | | |
| Property and equipment, net | 57,433 | 54,546 |
| Goodwill | 344,645 | 341,168 |
| Other intangible assets, net | 136,350 | 141,562 |
| Other assets | 8,999 | 9,081 |
| Total assets | $ 1,032,806 | $ 1,007,609 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 100,555 | $ 96,878 |
| Accrued expenses and other current liabilities | 45,262 | 45,181 |
| Accrued interest | 8,377 | 2,852 |
| Income taxes payable | 3,255 | 819 |
| Current portion of long-term debt | – | 13,358 |
| Current portion of capital leases | 523 | 607 |
| Total current liabilities | 157,972 | 159,695 |
| | | |
| Long-Term Liabilities: | | |

| | | |
|---|---|---|
| Deferred income taxes | 48,872 | 44,045 |
| Long-term debt, net of current portion | 300,000 | 300,000 |
| Capital leases, net of current portion | 523 | 906 |
| Other liabilities | 6,620 | 6,731 |
| Total liabilities | 513,987 | 511,377 |
| Commitments and contingencies (see Note 8) | | |
| Senior preferred stock; $0.01 par value, 20,000,000 authorized; none outstanding as of September 30, 2011 and December 31, 2010 | – | – |
| | | |
| Stockholders' Equity: | | |
| Common stock; $0.01 par value, 100,000,000 authorized; 33,529,227 issued and 32,554,823 outstanding as of September 30, 2011 and 33,336,373 issued and 33,214,073 outstanding as of December 31, 2010 | 335 | 333 |
| Additional paid-in capital | 598,954 | 593,031 |
| Accumulated deficit | (67,703) | (96,824) |
| Accumulated other comprehensive income | 1,470 | 1,865 |
| Treasury stock, at cost, 974,404 shares as of September 30, 2011 and 122,300 as of December 31, 2010 | (14,237) | (2,173) |
| Total stockholders' equity | 518,819 | 496,232 |
| Total liabilities and stockholders' equity | $ 1,032,806 | $ 1,007,609 |

*See accompanying notes to unaudited condensed consolidated financial statements.*



Table of Contents

**INTERLINE BRANDS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)**
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 24, 2010**
**(in thousands, except share and per share data)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 24, 2010 | September 30, 2011 | September 24, 2010 |
| Net sales | $ 331,349 | $ 276,821 | $ 946,445 | $ 792,193 |
| Cost of sales | 209,008 | 171,991 | 597,029 | 490,649 |
| Gross profit | 122,341 | 104,830 | 349,416 | 301,544 |
| | | | | |
| Operating Expenses: | | | | |
| Selling, general and administrative expenses | 90,253 | 76,987 | 266,592 | 231,686 |
| Depreciation and amortization | 5,926 | 4,981 | 17,531 | 14,667 |
| Total operating expenses | 96,179 | 81,968 | 284,123 | 246,353 |
| Operating income | 26,162 | 22,862 | 65,293 | 55,191 |
| | | | | |
| Interest expense | (6,138) | (4,373) | (18,327) | (13,092) |
| Interest and other income | 399 | 541 | 1,188 | 1,266 |

| | | | | |
|---|---|---|---|---|
| Income before income taxes | 20,423 | 19,030 | 48,154 | 43,365 |
| Income taxes | 8,041 | 7,518 | 19,033 | 17,192 |
| Net income | $ 12,382 | $ 11,512 | $ 29,121 | $ 26,173 |
| | | | | |
| Earnings Per Share: | | | | |
| Basic | $ 0.37 | $ 0.35 | $ 0.87 | $ 0.79 |
| Diluted | $ 0.37 | $ 0.34 | $ 0.86 | $ 0.78 |
| | | | | |
| Weighted-Average Shares Outstanding: | | | | |
| Basic | 33,271,753 | 33,084,756 | 33,359,746 | 32,931,814 |
| Diluted | 33,860,017 | 33,796,615 | 34,045,996 | 33,685,652 |

*See accompanying notes to unaudited condensed consolidated financial statements.*



Table of Contents

**INTERLINE BRANDS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**NINE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 24, 2010**
**(in thousands)**

| | September 30, 2011 | September 24, 2010 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income | $ 29,121 | $ 26,173 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,531 | 14,970 |
| Amortization of debt issuance costs | 1,020 | 775 |
| Amortization of discount on $8^1/_8$% senior subordinated notes | – | 115 |
| Share-based compensation | 4,425 | 3,299 |
| Excess tax benefits from share-based compensation | (858) | (775) |
| Deferred income taxes | 6,571 | 1,270 |
| Provision for doubtful accounts | 2,256 | 3,629 |
| Loss on disposal of property and equipment | 107 | 129 |
| | | |
| Changes in assets and liabilities which provided (used) cash, net of business acquired: | | |
| Accounts receivable - trade | (25,690) | (16,499) |
| Inventory | (2,751) | (33,756) |
| Prepaid expenses and other current assets | 4,406 | (5,670) |
| Other assets | 181 | (97) |
| Accounts payable | 614 | 9,235 |
| Accrued expenses and other current liabilities | (4,548) | 6,691 |
| Accrued interest | 5,521 | 2,609 |
| Income taxes | 5,394 | 345 |
| Other liabilities | (238) | 6 |
| Net cash provided by operating activities | 43,062 | 12,449 |

| | | |
|---|---|---|
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment, net | (15,036) | (12,937) |
| Purchase of short-term investments | – | (3,002) |
| Proceeds from sales and maturities of short-term investments | 100 | 4,012 |
| Purchase of businesses, net of cash acquired | (9,695) | (145) |
| Net cash used in investing activities | (24,631) | (12,072) |
| Cash Flows from Financing Activities: | | |
| Increase (decrease) in purchase card payable, net | 3,341 | (1,463) |
| Repayment of term debt | – | (1,590) |
| Repayment of 8$^{1}/_{8}$% senior subordinated notes | (13,358) | – |
| Payment of debt issuance costs | (34) | – |
| Payments on capital lease obligations | (467) | (198) |
| Proceeds from stock options exercised | 641 | 7,211 |
| Excess tax benefits from share-based compensation | 858 | 775 |
| Purchases of treasury stock | (11,108) | (97) |
| Net cash (used in) provided by financing activities | (20,127) | 4,638 |
| Effect of exchange rate changes on cash and cash equivalents | (157) | 66 |
| Net (decrease) increase in cash and cash equivalents | (1,853) | 5,081 |
| Cash and cash equivalents at beginning of period | 86,981 | 99,223 |
| Cash and cash equivalents at end of period | $ 85,128 | $ 104,304 |
| | | |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | $ 11,469 | $ 9,410 |
| Income taxes, net of refunds | $ 8,111 | $ 15,644 |
| | | |
| Schedule of Non-Cash Investing and Financing Activities: | | |
| Treasury stock acquired through accrued liabilities | $ 957 | $ – |
| Property acquired through lease incentives | $ 475 | $ 2,445 |
| Adjustments to liabilities assumed and goodwill on businesses acquired | $ 163 | $ – |
| Contingent consideration associated with purchase of business | $ 250 | $ – |

*See accompanying notes to unaudited condensed consolidated financial statements.*



Table of Contents

**INTERLINE BRANDS, INC. AND SUBSIDIARIES**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND SEPTEMBER 24, 2010**

## 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

*Business*

Interline Brands, Inc., a Delaware corporation, and its subsidiaries ("Interline" or the "Company") is a leading national distributor and direct marketer of maintenance, repair and operations ("MRO") products. The Company sells plumbing, electrical, hardware, security, heating, ventilation and air conditioning ("HVAC"), janitorial and sanitation ("JanSan") supplies and other MRO products. Interline' s highly diverse customer base consists of multi-family housing, educational, lodging, government and healthcare facilities, professional contractors and specialty distributors.

The Company markets and sells its products primarily through fourteen distinct and targeted brands. The Company utilizes a variety of sales channels, including a direct sales force, telesales representatives, a direct marketing program consisting of catalogs and promotional flyers, brand-specific websites and a national accounts sales program. The Company delivers its products through its network of distribution centers and professional contractor showrooms located throughout the United States, Canada and Puerto Rico, vendor managed inventory locations at large professional contractor customer locations and its dedicated fleet of trucks. Through its broad distribution network, the Company is able to provide next-day delivery service to approximately 98% of the U.S. population and same-day delivery service to most major metropolitan markets in the U.S.

Interline Brands, Inc. is the holding company of the Interline group of businesses, including its principal operating subsidiary, Interline Brands, Inc., a New Jersey corporation ("Interline New Jersey").

*Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements of Interline have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements included in the Company' s Annual Report on Form 10-K have been condensed or omitted. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC.

All adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented have been recorded. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

The preparation of condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation reserves for accounts receivable and income taxes, lower of cost or market and obsolescence reserves for inventory, reserves for self-insurance programs and valuation of goodwill and other intangible assets. Actual results could differ from those estimates.



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Table of Contents

*Fair Value of Financial Instruments*

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Disclosure about how fair value is determined for assets and liabilities is based on a hierarchy established from the significant levels of inputs as follows:

**Level 1** quoted prices in active markets for identical assets or liabilities;

| | |
|---|---|
| **Level 2** | quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or |
| **Level 3** | unobservable inputs, such as discounted cash flow models or valuations. |

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The fair value of cash and cash equivalents, accounts receivable, and accounts payable approximate the carrying amount because of the short maturities of these items.

The Company had no short-term investments as of September 30, 2011. As of December 31, 2010, the Company' s short-term investments, which were classified as available-for-sale, were comprised of pre-refunded municipal bonds. Pre-refunded municipal bonds are bonds that are refinanced by the issuer and remain outstanding in the marketplace until a specific call date or maturity date is reached. Pre-refunded municipal bonds are secured by U.S. Treasury securities placed in an irrevocable escrow account. As of December 31, 2010, both the carrying amount and fair value of the Company' s short-term investments were $0.1 million. The fair value of the pre-refunded municipal bonds was estimated using Level 1 inputs and was determined by quoted market prices as they were publicly traded.

The following table shows the carrying amount and the fair value of the Company' s senior subordinated notes as of September 30, 2011 and December 31, 2010 (in thousands):

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| **Description** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Senior subordinated notes (1) | $ 300,000 | $ 293,250 | $ 300,000 | $ 304,500 |

(1) Fair value estimated using Level 1 inputs. The fair value of the Company' s senior subordinated notes is determined by quoted market prices as they are publicly traded.



Table of Contents

*Segment Information*

The Company has one operating segment and, therefore, one reportable segment, the distribution of MRO products. The Company' s revenues and assets outside the United States are not significant. The Company' s net sales by product category were as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| **Product Category (1)** | **September 30, 2011** | **September 24, 2010** | **September 30, 2011** | **September 24, 2010** |
| Janitorial and sanitation | $ 121,618 | $ 75,868 | $ 349,148 | $ 219,009 |
| Plumbing | 69,704 | 65,186 | 208,061 | 196,382 |
| Heating, ventilation and air conditioning | 35,300 | 34,429 | 92,584 | 92,144 |
| Electrical and lighting | 30,798 | 29,845 | 90,609 | 87,466 |
| Appliances and parts | 19,839 | 18,176 | 56,350 | 52,241 |

| | | | | |
|---|---|---|---|---|
| Security and safety | 17,774 | 17,159 | 49,446 | 46,715 |
| Hardware, tools and fixtures | 15,765 | 15,504 | 46,243 | 44,924 |
| Other | 20,551 | 20,654 | 54,004 | 53,312 |
| Total | $ 331,349 | $ 276,821 | $ 946,445 | $ 792,193 |

(1) During 2010, the Company implemented a new product information management system. In conjunction with this implementation, the Company went through and is completing its robust product identification process and, as a result, stock keeping units are realigned within product categories. Therefore, the prior periods in this table have been recast to be consistent with current presentation.

*Recently Issued Accounting Standards*

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* ("ASU 2011-04"). The amendments in ASU 2011-04 will provide clarification of certain fair value concepts such as principal market determination; valuation premise and highest and best use; measuring fair value of instruments with offsetting market or counterparty credit risks; blockage factor and other premiums and discounts; and liabilities and instruments classified in shareholders' equity. In addition, the pronouncement will provide guidance for new disclosures such as transfers between Level 1 and Level 2 of the fair value hierarchy; Level 3 fair value measurements; an entity's use of an asset when it is different from its highest and best use; and fair value hierarchy disclosures for financial instruments not measured at fair value but disclosed. This pronouncement is effective for reporting periods beginning after December 15, 2011, with early adoption prohibited. The new guidance will require prospective application. We believe the adoption of this guidance will primarily affect certain disclosures related to fair value and will not have a material impact on the Company's financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). This pronouncement will bring consistency to the way reporting entities disclose comprehensive income in their consolidated financial statements and related notes. ASU 2011-05 will no longer permit disclosure of comprehensive income in either the statement of shareholders' equity or in a note to the consolidated financial statements. Instead, reporting entities will have two options for presenting comprehensive income. The first option presents comprehensive income in a single statement, which includes two components: net income and other comprehensive income. The second option allows the presentation of comprehensive income in two separate but consecutive statements: one for net income and the other for other comprehensive income. This pronouncement is effective for reporting periods beginning after December 15, 2011, with early adoption permitted. The new guidance will require retrospective application. Because this ASU impacts presentation only, adoption will not have an impact on the Company's financial condition, results of operations or cash flows.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles − Goodwill and Other (Topic 350)* ("ASU 2011-08"). The amendments in ASU 2011-08 are intended to simplify how entities test goodwill for impairment. The amendments will permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Because this guidance only enhances the steps performed to determine whether a potential impairment exists (but should not impact the resulting conclusion), the adoption will not have an impact on the Company's financial condition, results of operations, or cash flows.



Table of Contents

**2. ACQUISITIONS**

On January 28, 2011, Interline New Jersey acquired substantially all of the assets and a portion of the liabilities of Northern Colorado Paper, Inc. (“NCP”) for $9.6 million in cash and an earn-out of up to $0.3 million in cash over two years. NCP, which is headquartered in Greeley, Colorado, is a regional distributor of JanSan supplies, primarily servicing institutional facilities in the healthcare, education and food service industries. This acquisition represents an expansion of the Company’ s offering of JanSan products in the western United States.

On October 29, 2010, Interline New Jersey acquired substantially all of the assets and a portion of the liabilities of CleanSource, Inc. (“CleanSource”) for $54.6 million in cash and an earn-out of up to $5.5 million in cash over two years. CleanSource, which is headquartered in San Jose, California, is a large regional distributor of JanSan supplies. CleanSource offers over 4,000 products and primarily serves institutional facilities in the healthcare and education markets, as well as building services contractors. This acquisition represents a geographical expansion of the Company’ s offering of JanSan products to the West Coast of the United States.

As of September 30, 2011, the fair value of the earn-outs associated with the acquisitions of CleanSource and NCP was $4.0 million and $0.3 million, respectively. Since the dates of acquisition, there have been no changes in the range of outcomes assumed when valuing these contingent liabilities.

## 3. ACCOUNTS RECEIVABLE

The Company’ s trade receivables are exposed to credit risk. The majority of the markets served by the Company are comprised of numerous individual accounts. The Company monitors the creditworthiness of its customers on an ongoing basis and provides a reserve for estimated bad debt losses. If the financial condition of the Company’ s customers were to deteriorate, increases in its allowance for doubtful accounts may be needed.

The activity in the allowance for doubtful accounts consisted of the following (in thousands):

| Balance at December 31, 2010 | Charged to Expense | Deductions | Balance at September 30, 2011 |
|---|---|---|---|
| $ 9,088 | $ 2,256 | $ (4,034) | $ 7,310 |

## 4. RESTRUCTURING AND ACQUISITION ACCRUALS

*Restructuring Accruals*

Since 2008, the Company has undertaken certain significant changes in its cost structure. These operational initiatives focus on reducing the Company’ s overall operating cost structure. The following table summarizes the changes to related accruals, which are included in accrued expenses and other current liabilities, during the nine months ended September 30, 2011 (in thousands):

| | Facility Closing and Other Costs |
|---|---|
| Balance at December 31, 2010 | $ 475 |
| Payments | (266) |
| Adjustments (1) | (76) |
| Balance at September 30, 2011 | $ 133 |

(1) Adjustments reflect a change in estimate of remaining liabilities for facility closing and other costs.

Facility closing and other costs include lease tails, property and equipment disposals and other shut-down expenses associated with distribution center and professional contractor showroom consolidations.



Table of Contents

*Acquisition Accruals*

The following table summarizes the accruals assumed in connection with the Company' s business combinations, which are included in accrued expenses and other current liabilities (in thousands):

| | Employee Severance and Relocation | Facility Closing and Other Costs | Total |
|---|---|---|---|
| Balance at December 31, 2010 | $ 44 | $ 917 | $ 961 |
| Payments | – | (116) | (116) |
| Write-offs | – | (269) | (269) |
| Balance at September 30, 2011 | $ 44 | $ 532 | $ 576 |

## 5. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock and participating securities outstanding during the period. Participating securities are unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid), such as deferred stock units. The impact of participating securities on the calculation is insignificant.

Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock and participating securities outstanding during the period as adjusted for the potential dilutive effect of stock options and non-vested shares of restricted stock and restricted share units using the treasury stock method.

The following summarizes the shares of common stock used to calculate earnings per share including the potentially dilutive impact of stock options, restricted stock and restricted share units, calculated using the treasury stock method, as included in the calculation of diluted weighted-average shares:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 24, 2010 | September 30, 2011 | September 24, 2010 |
| Weighted average shares outstanding - basic | 33,271,753 | 33,084,756 | 33,359,746 | 32,931,814 |
| Dilutive shares resulting from: | | | | |
| Stock options | 242,269 | 315,464 | 365,139 | 371,721 |
| Restricted stock | 590 | 437 | 196 | 813 |
| Restricted share units | 345,405 | 395,958 | 320,915 | 381,304 |
| Weighted average shares outstanding - diluted | 33,860,017 | 33,796,615 | 34,045,996 | 33,685,652 |

During the three months ended September 30, 2011 and September 24, 2010, stock options to purchase 1,975,775 shares and 1,849,705 shares of common stock, respectively, were excluded from the computations of diluted weighted-average shares outstanding because their effect would be anti-dilutive. During the nine months ended September 30, 2011 and September 24, 2010, stock options to purchase 2,109,751 shares and 1,910,550 shares of common stock, respectively, were excluded from the computations of diluted weighted-average shares outstanding because their effect would be anti-dilutive.



Table of Contents

## 6. COMPREHENSIVE INCOME

Comprehensive income refers to net income plus revenues, expenses, gains and losses that are recorded directly as an adjustment to stockholders' equity, net of tax, including changes in employee benefit plan obligations and foreign currency translation. The components of comprehensive income for the three and nine months ended September 30, 2011 and September 24, 2010 are as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 24, 2010 | September 30, 2011 | September 24, 2010 |
| Net income | $ 12,382 | $ 11,512 | $ 29,121 | $ 26,173 |
| Other comprehensive (loss) income: | | | | |
| Amortization of unrecognized (loss)/ gain on employee benefits | (3) | 5 | (2) | 13 |
| Foreign currency translation | (621) | 68 | (393) | 152 |
| Total comprehensive income | $ 11,758 | $ 11,585 | $ 28,726 | $ 26,338 |

## 7. SHARE-BASED COMPENSATION

During the three months ended September 30, 2011 and September 24, 2010, share-based compensation expense was $1.6 million and $1.3 million, respectively. During the nine months ended September 30, 2011 and September 24, 2010, share-based compensation expense was $4.4 million and $3.3 million, respectively. As of September 30, 2011, there was $10.4 million of total unrecognized share-based compensation expense related to unvested share-based payment awards. The expense is expected to be recognized over a weighted-average period of 2.4 years.

During both the three months ended September 30, 2011 and September 24, 2010, the Company did not grant any stock options. During the nine months ended September 30, 2011 and September 24, 2010, the Company granted 377,659 and 292,473 stock options, respectively, with a weighted-average grant date fair value of $8.33 and $7.21, respectively. The fair values of stock options were estimated using the Black-Scholes option-pricing model. Expected volatility is based on historical performance of the Company's stock. The Company also considers historical data to estimate the timing and amount of stock option exercises and forfeitures. The expected life represents the period of time that stock options are expected to remain outstanding and is based on the contractual term of the stock options and expected exercise behavior. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected option life assumed at the date of grant.

The Black-Scholes weighted-average assumptions were as follows:

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2011 | September 24, 2010 |
| Expected volatility | 41.0% | 41.5% |

| | | |
|---|---|---|
| Expected dividends | 0.0% | 0.0% |
| Risk-free interest rate | 2.1% | 2.4% |
| Expected life (in years) | 5.0 | 5.0 |

During the three months ended September 30, 2011 and September 24, 2010, there were 1,875 and 15,924 stock options exercised, respectively, with an intrinsic value of less than $0.1 million in each period. During the nine months ended September 30, 2011 and September 24, 2010, there were 41,962 and 481,573 stock options exercised with an intrinsic value of $0.2 million and $2.1 million, respectively.



Table of Contents

A summary status of restricted stock, restricted share units, and deferred stock units as of September 30, 2011 and changes during the nine months then ended is presented below:

| | Restricted Stock | | Restricted Share Units | | Deferred Stock Units | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value |
| Outstanding at December 31, 2010 | 8,050 | $ 23.84 | 659,576 | $ 12.06 | 93,134 | $ 19.27 |
| Granted | – | – | 160,670 | 20.15 | 25,123 | 19.53 |
| Vested | (1,000) | 22.92 | (150,892) | 8.10 | – | – |
| Forfeited | – | – | (5,767) | 9.06 | – | – |
| Outstanding at September 30, 2011 | 7,050 | $ 23.97 | 663,587 | $ 14.94 | 118,257 | $ 19.32 |

During the three months ended September 30, 2011, 1,000 restricted stock awards vested, with a fair value of less than $0.1 million.  During the three months ended September 24, 2010, zero restricted stock awards vested. During the nine months ended September 30, 2011 and September 24, 2010, 1,000 and 2,300 restricted stock awards vested, respectively, with fair values of less than $0.1 million in each period.

During the three months ended September 30, 2011 and September 24, 2010, zero restricted share units vested. During the nine months ended September 30, 2011 and September 24, 2010, 150,892 and 19,548 restricted share units vested with a fair value of $3.2 million and $0.3 million, respectively.

## 8. CONTINGENCIES

*Contingent Liabilities*

As of September 30, 2011 and December 31, 2010, the Company was contingently liable for outstanding letters of credit aggregating to $7.0 million and $7.9 million, respectively.

*Legal Proceedings*

The Company has been named as a defendant in an action filed before the Nineteenth Judicial Circuit Court of Lake County, Illinois, which was subsequently removed to the United States District Court for the Northern District of Illinois.  The complaint alleges that the Company sent thousands of unsolicited fax advertisements to businesses nationwide in violation of the

Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005 (“TCPA”). At the time of filing the complaint, the plaintiff also filed a motion asking the Court to certify a class of plaintiffs comprised of businesses who allegedly received unsolicited fax advertisements from the Company. Other reported TCPA claims have resulted in a broad range of outcomes, with each case being dependent on its own unique set of facts and circumstances. Accordingly, we cannot reasonably estimate the amount of loss, if any, arising from this matter. The Company is vigorously contesting class action certification and liability, and will continue to evaluate its defenses based upon its internal review and investigation of prior events, new information, and future circumstances.

The Company is involved in various other legal proceedings in the ordinary course of its business that are not anticipated to have a material effect on the Company’ s results of operations or financial position.

**9. STOCKHOLDERS’ EQUITY**

In August 2011, the Company’ s Board of Directors authorized the repurchase of up to an aggregate of $25.0 million of the Company’ s outstanding common stock. Share repurchases made under this authorization are expected to be accomplished from time to time based on market conditions, the Company’ s cash and debt position, and other factors as determined by management. The authorization does not have an expiration date and may be modified, suspended, or discontinued by the Board of Directors at any time, in accordance with applicable securities laws. Shares may be repurchased through open market or privately negotiated transactions. The Company plans to fund share repurchases with cash generated from operations. During the nine months ended September 30, 2011, the Company repurchased 805,438 shares of common stock pursuant to this authorization at an aggregate cost of $11.0 million, or an average cost of $13.70 per share, through open market transactions. Subsequent to September 30, 2011 and through November





3, 2011, the Company repurchased an additional 494,718 shares of common stock pursuant to this authorization at an aggregate cost of $6.9 million, or an average cost of $13.92 per share, through open market transactions. In total, the Company has repurchased 1,300,156 shares of common stock pursuant to this authorization at an aggregate cost of $17.9 million, or an average cost of $13.78 per share. The Company used cash flows from operating activities to pay the purchase price for the repurchased shares. The repurchased shares have become treasury shares.

**10. GUARANTOR SUBSIDIARIES**

The 7.00% senior subordinated notes of Interline New Jersey (the “Subsidiary Issuer”), issued in November 2010, are, and the $8^1/_8$% senior subordinated notes, fully redeemed in January 2011, were, fully and unconditionally guaranteed, jointly and severally, on an unsecured senior subordinated basis by Interline Brands, Inc. (the “Parent Company”) and all of Interline New Jersey’ s 100% owned domestic subsidiaries: Wilmar Holdings, Inc., Wilmar Financial, Inc., and Glenwood Acquisition LLC (collectively the “Guarantor Subsidiaries”). The guarantees by the Parent Company and the Guarantor Subsidiaries are senior to any of their existing and future subordinated obligations, equal in right of payment with any of their existing and future senior subordinated indebtedness and subordinated to any of their existing and future senior indebtedness.

The Parent Company is a holding company whose only asset is the stock of its subsidiaries. The Parent Company conducts virtually all of its business operations through the Subsidiary Issuer. Accordingly, the Parent Company’ s only material sources of cash are dividends and distributions with respect to its ownership interests in the Subsidiary Issuer that are derived from the earnings and cash flow generated by the Subsidiary Issuer. Through September 30, 2011, dividends totaling $12.1 million have been paid to the Parent Company from the Subsidiary Issuer for the purpose of funding the share repurchase that occurred during the quarter.

The following tables set forth, on a condensed consolidating basis, the balance sheets, statements of operations and statements of cash flows for the Parent Company, Subsidiary Issuer and Guarantor Subsidiaries for all financial statement periods presented in the Company' s condensed consolidated financial statements. The non-guarantor subsidiaries are minor and are included in the condensed financial data of the Subsidiary Issuer. The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Parent Company or the Guarantor Subsidiaries; therefore, the following tables do not reflect any such allocation.



Table of Contents

**CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)**
**AS OF SEPTEMBER 30, 2011**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ – | $ 85,095 | $ 33 | $ – | $ 85,128 |
| Accounts receivable - trade, net | – | 149,925 | – | – | 149,925 |
| Inventory | – | 210,506 | – | – | 210,506 |
| Intercompany receivable | – | – | 195,105 | (195,105) | – |
| Other current assets | – | 39,819 | 1 | – | 39,820 |
| Total current assets | – | 485,345 | 195,139 | (195,105) | 485,379 |
| | | | | | |
| Property and equipment, net | – | 57,433 | – | – | 57,433 |
| Goodwill | – | 344,645 | – | – | 344,645 |
| Other intangible assets, net | – | 136,350 | – | – | 136,350 |
| Investment in subsidiaries | 518,819 | 199,418 | – | (718,237) | – |
| Other assets | – | 2,455 | 6,544 | – | 8,999 |
| Total assets | $ 518,819 | $ 1,225,646 | $ 201,683 | $ (913,342) | $ 1,032,806 |
| | | | | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | $ – | $ 100,555 | $ – | $ – | $ 100,555 |
| Accrued expenses and other current liabilities | – | 54,629 | 2,265 | – | 56,894 |
| Intercompany payable | – | 195,105 | – | (195,105) | – |
| Current portion of long-term debt and capital leases | – | 523 | – | – | 523 |
| Total current liabilities | – | 350,812 | 2,265 | (195,105) | 157,972 |
| | | | | | |
| Long-Term Liabilities: | | | | | |
| Long-term debt and capital leases, net of current portion | – | 300,523 | – | – | 300,523 |
| Other liabilities | – | 55,492 | – | – | 55,492 |

| | | | | | |
|---|---|---|---|---|---|
| Total liabilities | – | 706,827 | 2,265 | (195,105) | 513,987 |
| | | | | | |
| Senior preferred stock | – | 965,441 | – | (965,441) | – |
| | | | | | |
| Stockholders' equity (deficit) | 518,819 | (446,622) | 199,418 | 247,204 | 518,819 |
| Total liabilities and stockholders' equity | $ 518,819 | $ 1,225,646 | $ 201,683 | $ (913,342) | $ 1,032,806 |



Table of Contents

**CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)**
**AS OF DECEMBER 31, 2010**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ – | $ 86,919 | $ 62 | $ – | $ 86,981 |
| Short-term investments | – | 100 | – | – | 100 |
| Accounts receivable - trade, net | – | 122,619 | – | – | 122,619 |
| Inventory | – | 203,269 | – | – | 203,269 |
| Intercompany receivable | – | – | 144,759 | (144,759) | – |
| Other current assets | – | 48,278 | 5 | – | 48,283 |
| Total current assets | – | 461,185 | 144,826 | (144,759) | 461,252 |
| | | | | | |
| Property and equipment, net | – | 54,546 | – | – | 54,546 |
| Goodwill | – | 341,168 | – | – | 341,168 |
| Other intangible assets, net | – | 141,562 | – | – | 141,562 |
| Investment in subsidiaries | 496,232 | 149,446 | – | (645,678) | – |
| Other assets | – | 2,542 | 6,539 | – | 9,081 |
| Total assets | $ 496,232 | $ 1,150,449 | $ 151,365 | $ (790,437) | $ 1,007,609 |
| | | | | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | $ – | $ 96,878 | $ – | $ – | $ 96,878 |
| Accrued expenses and other current liabilities | – | 46,933 | 1,919 | – | 48,852 |
| Intercompany payable | – | 144,759 | – | (144,759) | – |
| Current portion of long-term debt and capital leases | – | 13,965 | – | – | 13,965 |
| Total current liabilities | – | 302,535 | 1,919 | (144,759) | 159,695 |
| | | | | | |
| Long-Term Liabilities: | | | | | |
| Long-term debt and capital leases, net of current portion | – | 300,906 | – | – | 300,906 |

| | | | | | |
|---|---|---|---|---|---|
| Other liabilities | – | 50,776 | – | – | 50,776 |
| Total liabilities | – | 654,217 | 1,919 | (144,759) | 511,377 |
| Senior preferred stock | – | 871,014 | – | (871,014) | – |
| Stockholders' equity (deficit) | 496,232 | (374,782) | 149,446 | 225,336 | 496,232 |
| Total liabilities and stockholders' equity | $ 496,232 | $ 1,150,449 | $ 151,365 | $ (790,437) | $ 1,007,609 |



Table of Contents

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $ 331,349 | $ – | $ – | $ 331,349 |
| Cost of sales | – | 209,008 | – | – | 209,008 |
| Gross profit | – | 122,341 | – | – | 122,341 |
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 95,214 | 7 | (4,968) | 90,253 |
| Depreciation and amortization | – | 5,926 | – | – | 5,926 |
| Other operating income | – | – | (4,968) | 4,968 | – |
| Equity earnings of subsidiaries | (12,382) | (3,896) | – | 16,278 | – |
| Total operating expenses | (12,382) | 97,244 | (4,961) | 16,278 | 96,179 |
| Operating income | 12,382 | 25,097 | 4,961 | (16,278) | 26,162 |
| Interest and other (expense) income, net | – | (6,625) | 886 | – | (5,739) |
| Income before income taxes | 12,382 | 18,472 | 5,847 | (16,278) | 20,423 |
| Income taxes | – | 6,090 | 1,951 | – | 8,041 |
| Net income | 12,382 | 12,382 | 3,896 | (16,278) | 12,382 |
| Preferred stock dividends | – | (32,561) | – | 32,561 | – |
| Net income (loss) attributable to common stockholders | $ 12,382 | $ (20,179) | $ 3,896 | $ 16,283 | $ 12,382 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.



Table of Contents

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**

## FOR THE THREE MONTHS ENDED SEPTEMBER 24, 2010
## (in thousands)

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $ 276,821 | $ – | $ – | $ 276,821 |
| Cost of sales | – | 171,991 | – | – | 171,991 |
| Gross profit | – | 104,830 | – | – | 104,830 |
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 81,088 | 7 | (4,108) | 76,987 |
| Depreciation and amortization | – | 4,981 | – | – | 4,981 |
| Other operating income | – | – | (4,108) | 4,108 | – |
| Equity earnings of subsidiaries | (11,512) | (3,436) | – | 14,948 | – |
| Total operating expenses | (11,512) | 82,633 | (4,101) | 14,948 | 81,968 |
| Operating income | 11,512 | 22,197 | 4,101 | (14,948) | 22,862 |
| Interest and other (expense) income, net | – | (4,683) | 851 | – | (3,832) |
| Income before income taxes | 11,512 | 17,514 | 4,952 | (14,948) | 19,030 |
| Income taxes | – | 6,002 | 1,516 | – | 7,518 |
| Net income | 11,512 | 11,512 | 3,436 | (14,948) | 11,512 |
| Preferred stock dividends | – | (28,313) | – | 28,313 | – |
| Net income (loss) attributable to common stockholders | $ 11,512 | $ (16,801) | $ 3,436 | $ 13,365 | $ 11,512 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.



Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011
## (in thousands)

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $ 946,445 | $ – | $ – | $ 946,445 |
| Cost of sales | – | 597,029 | – | – | 597,029 |
| Gross profit | – | 349,416 | – | – | 349,416 |
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 281,042 | 23 | (14,473) | 266,592 |

| | | | | | |
|---|---|---|---|---|---|
| Depreciation and amortization | – | 17,531 | – | – | 17,531 |
| Other operating income | – | – | (14,473) | 14,473 | – |
| Equity earnings of subsidiaries | (29,121) | (11,104) | – | 40,225 | – |
| Total operating expenses | (29,121) | 287,469 | (14,450) | 40,225 | 284,123 |
| Operating income | 29,121 | 61,947 | 14,450 | (40,225) | 65,293 |
| Interest and other (expense) income, net | – | (19,482) | 2,343 | – | (17,139) |
| Income before income taxes | 29,121 | 42,465 | 16,793 | (40,225) | 48,154 |
| Income taxes | – | 13,344 | 5,689 | – | 19,033 |
| Net income | 29,121 | 29,121 | 11,104 | (40,225) | 29,121 |
| Preferred stock dividends | – | (94,426) | – | 94,426 | – |
| Net income (loss) attributable to common stockholders | $ 29,121 | $ (65,305) | $ 11,104 | $ 54,201 | $ 29,121 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.



Table of Contents

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 24, 2010**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $ 792,193 | $ – | $ – | $ 792,193 |
| Cost of sales | – | 490,649 | – | – | 490,649 |
| Gross profit | – | 301,544 | – | – | 301,544 |
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 243,520 | 21 | (11,855) | 231,686 |
| Depreciation and amortization | – | 14,667 | – | – | 14,667 |
| Other operating income | – | – | (11,855) | 11,855 | – |
| Equity earnings of subsidiaries | (26,173) | (9,560) | – | 35,733 | – |
| Total operating expenses | (26,173) | 248,627 | (11,834) | 35,733 | 246,353 |
| Operating income | 26,173 | 52,917 | 11,834 | (35,733) | 55,191 |
| Interest and other (expense) income, net | – | (14,100) | 2,274 | – | (11,826) |
| Income before income taxes | 26,173 | 38,817 | 14,108 | (35,733) | 43,365 |
| Income taxes | – | 12,644 | 4,548 | – | 17,192 |
| Net income | 26,173 | 26,173 | 9,560 | (35,733) | 26,173 |
| Preferred stock dividends | – | (82,105) | – | 82,105 | – |
| Net income (loss) attributable to common stockholders | $ 26,173 | $ (55,932) | $ 9,560 | $ 46,372 | $ 26,173 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.



Table of Contents

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by operating activities | $ – | $ 42,316 | $ 746 | $ – | $ 43,062 |
| Cash Flows from Investing Activities: | | | | | |
| Purchase of property and equipment, net | – | (15,036) | – | – | (15,036) |
| Proceeds from sales and maturities of short-term investments | – | 100 | – | – | 100 |
| Purchase of businesses, net of cash acquired | – | (9,695) | – | – | (9,695) |
| Dividends received from subsidiary issuer | 11,108 | – | – | (11,108) | – |
| Other | – | 775 | – | (775) | – |
| Net cash used in investing activities | 11,108 | (23,856) | – | (11,883) | (24,631) |
| Cash Flows from Financing Activities: | | | | | |
| Increase in purchase card payable, net | – | 3,341 | – | – | 3,341 |
| Repayment of debt and capital lease obligations | – | (13,825) | – | – | (13,825) |
| Proceeds from stock options exercised | – | 641 | – | – | 641 |
| Purchases of treasury stock | (11,108) | – | – | – | (11,108) |
| Dividends paid to parent company | – | (11,108) | – | 11,108 | – |
| Other | – | 824 | (775) | 775 | 824 |
| Net cash used in financing activities | (11,108) | (20,127) | (775) | 11,883 | (20,127) |
| Effect of exchange rate changes on cash and cash equivalents | – | (157) | – | – | (157) |
| Net decrease cash and cash equivalents | – | (1,824) | (29) | – | (1,853) |
| Cash and cash equivalents at beginning of period | – | 86,919 | 62 | – | 86,981 |
| Cash and cash equivalents at end of period | $ – | $ 85,095 | $ 33 | $ – | $ 85,128 |



Table of Contents

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 24, 2010**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $ – | $ 12,602 | $ (153) | $ – | $ 12,449 |
| Cash Flows from Investing Activities: | | | | | |
| Purchase of property and equipment, net | – | (12,937) | – | – | (12,937) |
| Purchase of short-term investments | – | (3,002) | – | – | (3,002) |
| Proceeds from sales and maturities of short-term investments | – | 4,012 | – | – | 4,012 |
| Purchase of businesses, net of cash acquired | – | (145) | – | – | (145) |
| Other | – | (182) | – | 182 | – |
| Net cash used in investing activities | – | (12,254) | – | 182 | (12,072) |
| Cash Flows from Financing Activities: | | | | | |
| (Decrease) in purchase card payable, net | – | (1,463) | – | – | (1,463) |
| Repayment of debt and capital lease obligations | – | (1,788) | – | – | (1,788) |
| Proceeds from stock options exercised | – | 7,211 | – | – | 7,211 |
| Purchases of treasury stock | – | (97) | – | – | (97) |
| Other | – | 775 | 182 | (182) | 775 |
| Net cash provided by financing activities | – | 4,638 | 182 | (182) | 4,638 |
| Effect of exchange rate changes on cash and cash equivalents | – | 66 | – | – | 66 |
| Net increase in cash and cash equivalents | – | 5,052 | 29 | – | 5,081 |
| Cash and cash equivalents at beginning of period | – | 99,170 | 53 | – | 99,223 |
| Cash and cash equivalents at end of period | $ – | $ 104,222 | $ 82 | $ – | $ 104,304 |



Table of Contents

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

*References to "us" and "we" are to the Company. You should read the following discussion in conjunction with our unaudited condensed consolidated financial statements and related notes included in this quarterly report, and our audited consolidated financial statements and related notes and Management' s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").*

**Forward-Looking Statements**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") that are subject to risks and uncertainties. You should not place undue reliance on those statements because they are subject to numerous uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Forward-looking statements include information concerning our possible or assumed future results of operations, including descriptions of our business strategy. These statements often include words such as "may," "believe," "expect," "anticipate," "intend," "plan," "estimate" or similar expressions, including, without limitation, certain statements in Results of Operations, Liquidity and Capital Resources and Item 3.

Quantitative and Qualitative Disclosures About Market Risk. These statements are based on assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this report, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. These factors include:

- general market conditions,
- product cost and price fluctuations due to inflation and currency exchange rates,
- fluctuations in the cost of commodity-based products and raw materials, such as copper, and fuel prices,
- governmental and educational budget constraints,
- credit market contractions,
- healthcare costs,
- changes to tariffs between the countries in which we operate,
- labor and benefit costs,
- adverse changes in trends in the home improvement and remodeling and home building markets,
- weather conditions,
- the loss of significant customers,
- economic slowdowns,
- failure to realize expected benefits from acquisitions,
- failure to identify, acquire and successfully integrate acquisition candidates,
- consumer spending and debt levels,
- apartment vacancy rates and effective rents,
- the highly competitive nature of the maintenance, repair and operations distribution industry,
- material facilities and systems disruptions and shutdowns,
- our ability to purchase products from suppliers on favorable terms,
- the length of our supply chains,
- work stoppages or other business interruptions at transportation centers or shipping ports,
- our ability to accurately predict market trends,
- dependence on key employees,
- currency exchange rates,
- our inability to protect trademarks,
- adverse publicity and litigation,
- our level of debt,
- interest rate fluctuations,
- our customers' ability to pay us,
- future cash flows,
- changes in consumer preferences, and
- the other factors described under "Part I. Item 1A−Risk Factors" in our Annual Report on Form 10-K filed with the SEC.



Table of Contents

You should keep in mind that any forward-looking statement made by us in this report, or elsewhere, speaks only as of the date on which we make it. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. In light of these risks and uncertainties, you should keep in mind that any forward-looking statement made in this report or elsewhere might not occur. Notwithstanding the foregoing, all information contained in this report is materially accurate as of the date of this report.

**Overview**

We are a leading national distributor and direct marketer of maintenance, repair and operations ("MRO") products. We have one operating segment, the distribution of MRO products. We stock approximately 100,000 MRO products in the following categories: janitorial and sanitation ("JanSan"); plumbing; heating, ventilation and air conditioning ("HVAC"); electrical and lighting; appliances and parts; security and safety; hardware, tools and fixtures; and other miscellaneous products. Our products are primarily used for the repair, maintenance, remodeling, refurbishment and construction of properties and non-industrial facilities.

Our highly diverse customer base includes facilities maintenance customers, which consist of multi-family housing facilities, educational institutions, lodging and health care facilities, government properties and building service contractors; professional contractors who are primarily involved in the repair, remodeling and construction of residential and non-industrial facilities; and specialty distributors, including plumbing and hardware retailers. Our customers range in size from individual contractors and independent hardware stores to apartment management companies and national purchasing groups.

We market and sell our products primarily through fourteen distinct and targeted brands, each of which is recognized in the markets they serve for providing quality products at competitive prices with reliable same-day or next-day delivery. The Wilmar®, AmSan®, CleanSource®, Sexauer®, Maintenance USA®, NCP® and Trayco® brands generally serve our facilities maintenance customers; the Barnett®, Copperfield®, U.S. Lock® and SunStar® brands generally serve our professional contractor customers; and the Hardware Express®, Leran℠ and AF Lighting℠ brands generally serve our specialty distributors customers. Our multi-brand operating model, which we believe is unique in the industry, allows us to use a single platform to deliver tailored products and services to meet the individual needs of each respective customer group served. We reach our markets using a variety of sales channels, including a sales force of approximately 650 field sales representatives, approximately 350 inside sales and customer service representatives, a direct marketing program consisting of catalogs and promotional flyers, brand-specific websites and a national accounts sales program.

We deliver our products through our network of 55 distribution centers and 27 professional contractor showrooms located throughout the United States, Canada and Puerto Rico, 44 vendor-managed inventory locations at large customer locations and a dedicated fleet of trucks. Our broad distribution network enables us to provide reliable, next-day delivery service to approximately 98% of the U.S. population and same-day delivery service to most major metropolitan markets in the U.S.

Our information technology and logistics platform supports our major business functions, allowing us to market and sell our products at varying price points depending on the customer' s service requirements. While we market our products under a variety of brands, generally our brands draw from the same inventory within common distribution centers and share associated employee and transportation costs. In addition, we have centralized marketing, purchasing and catalog production operations to support our brands. We believe that our information technology and logistics platform also benefits our customers by allowing us to offer a broad product selection at highly competitive prices while maintaining the unique customer appeal of each of our targeted brands. Overall, we believe that our common operating platform has enabled us to improve customer service, maintain lower operating costs, efficiently manage working capital and support our growth initiatives.



Table of Contents

**Results of Operations**

The following table presents information derived from the condensed consolidated statements of earnings expressed as a percentage of revenues for the three and nine months ended September 30, 2011 and September 24, 2010:

| | % of Net Sales Three Months Ended September 30, 2011 | September 24, 2010 | % Increase (Decrease) 2011 vs. 2010 (1) | % of Net Sales Nine Months Ended September 30, 2011 | September 24, 2010 | % Increase (Decrease) 2011 vs. 2010 (1) |
|---|---|---|---|---|---|---|
| Net sales | 100.0% | 100.0% | 19.7% | 100.0% | 100.0% | 19.5% |
| Cost of sales | 63.1 | 62.1 | 21.5 | 63.1 | 61.9 | 21.7 |
| Gross profit | 36.9 | 37.9 | 16.7 | 36.9 | 38.1 | 15.9 |
| Operating Expenses: | | | | | | |
| Selling, general and administrative expenses | 27.2 | 27.8 | 17.2 | 28.2 | 29.2 | 15.1 |
| Depreciation and amortization | 1.8 | 1.8 | 19.0 | 1.9 | 1.9 | 19.5 |
| Total operating expenses | 29.0 | 29.6 | 17.3 | 30.0 | 31.1 | 15.3 |
| Operating income | 7.9 | 8.3 | 14.4 | 6.9 | 7.0 | 18.3 |
| Interest expense | (1.9) | (1.6) | 40.4 | (1.9) | (1.7) | 40.0 |
| Interest income and other income | 0.1 | 0.2 | (26.2) | 0.1 | 0.2 | (6.2) |
| Income before income taxes | 6.2 | 6.9 | 7.3 | 5.1 | 5.5 | 11.0 |
| Income taxes | (2.4) | (2.7) | 7.0 | (2.0) | (2.2) | 10.7 |
| Net income | 3.7% | 4.2% | 7.6% | 3.1% | 3.3% | 11.3% |

(1) Percent increase (decrease) represents the actual change as a percent of the prior year' s result.

*Overview.* During the three months ended September 30, 2011, our net sales increased 19.7%. This increase primarily reflected the impact of our recent acquisitions, as well as modest economic improvements across our end-markets. Sales to customers in our facilities maintenance end-markets, which make up 77% of our total sales and include residential multi-family housing and institutional customers, increased 25.6% in total as a result of our CleanSource and NCP acquisitions, including 3.5% on an organic sales basis during the third quarter of 2011 compared to the third quarter of 2010. Sales to our professional contractor and specialty distributor customers, which represent 13% and 10% of our total sales, respectively, increased 6.6% and 0.5%, respectively. Although we are starting to see some signs of stabilization, demand from these customers continues to be impacted by the general economic conditions, particularly as it relates to residential new construction and renovations activity. We expect continued variability within our end-markets; however, we believe the impact on sales related to the market weakness during 2011 will be less severe than we experienced during 2009 and 2010. We expect sales to our customers to increase modestly during the remainder of 2011 as limited and uneven economic improvements occur across our end-markets.

Our net income as a percentage of sales was 3.7% in the third quarter of 2011 compared to 4.2% in the comparable prior year period. The decrease in net income as a percent of sales is primarily a result of lower gross profit margins, driven by our CleanSource and NCP acquisitions, and higher interest expense, partially offset by lower selling, general and administrative expenses ("SG&A") as a percentage of sales.

We remain focused on expense control while continuing to invest in our operating platform for the long term. Accordingly, our plans include continued investments in the consolidation of our distribution network, in enhancements to our information technology solutions and in qualified sales and support personnel.

*Three Months Ended September 30, 2011 Compared to Three Months Ended September 24, 2010*

*Net Sales.* Our net sales increased by $54.5 million, or 19.7%, to $331.3 million in the three months ended September 30, 2011 from $276.8 million in the three months ended September 24, 2010. The increase in sales resulted from sales of $44.3 million





from our recently acquired brands, CleanSource and NCP, as well as $10.2 million from net increases in comparable sales to our facilities maintenance, professional contractor and specialty distributor customers.

*Gross Profit.* Gross profit increased by $17.5 million, or 16.7%, to $122.3 million in the three months ended September 30, 2011 from $104.8 million in the three months ended September 24, 2010. Our gross profit margin decreased 100 basis points to 36.9% for the three months ended September 30, 2011 compared to 37.9% for the three months ended September 24, 2010. This decrease in gross profit margin was primarily related to our CleanSource and NCP acquisitions, as they have lower gross profit margins due to their product mix.

*Selling, General and Administrative Expenses.* SG&A expenses increased by $13.3 million, or 17.2%, to $90.3 million in the three months ended September 30, 2011 from $77.0 million in the three months ended September 24, 2010. As a percent of sales, SG&A decreased to 27.2% for the three months ended September 30, 2011 compared to 27.8% for the three months ended September 24, 2010. The decrease in SG&A expenses as a percentage of sales was primarily due to lower distribution consolidation expenses, lower bad debt expense, and lower occupancy related expenses, as well as the impact from our CleanSource and NCP acquisitions, as they have lower SG&A expenses as a percentage of sales, offset in part by higher delivery and fuel expenses and higher payroll and fringe benefit costs.

*Depreciation and Amortization.* Depreciation and amortization expense increased by $0.9 million to $5.9 million in the three months ended September 30, 2011 from $5.0 million in the three months ended September 24, 2010. As a percentage of sales, depreciation and amortization was 1.8% in both the three months ended September 30, 2011 and September 24, 2010. The increase in depreciation and amortization expense was primarily due to our CleanSource and NCP acquisitions, as well as higher depreciation resulting from higher capital spending over the last three years associated with enhancements to our information technology infrastructure and distribution center consolidation and integration efforts.

*Operating Income.* As a result of the foregoing, operating income increased by $3.3 million, or 14.4%, to $26.2 million in the three months ended September 30, 2011 from $22.9 million in the three months ended September 24, 2010. As a percent of sales, operating income decreased to 7.9% in the three months ended September 30, 2011 compared to 8.3% in the three months ended September 24, 2010.

*Interest Expense.* Interest expense increased by $1.8 million in the three months ended September 30, 2011 to $6.1 million from $4.4 million in the three months ended September 24, 2010. This increase was primarily due to a higher weighted average interest rate as our ratio of fixed versus floating rate debt increased from the series of refinancing transactions completed on November 16, 2010, which extended our debt maturities.

*Interest and Other Income.* Interest and other income decreased by $0.1 million, or 26.2%, to $0.4 million in the three months ended September 30, 2011 from $0.5 million in the three months ended September 24, 2010.

*Provision for Income Taxes.* The effective tax rate for the three months ended September 30, 2011 was 39.4% compared to 39.5% for the three months ended September 24, 2010.

*Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 24, 2010*

*Net Sales.* Our net sales increased $154.3 million, or 19.5%, to $946.4 million in the nine months ended September 30, 2011 from $792.2 million in the nine months ended September 24, 2010. The increase in sales resulted from sales of $123.6 million from our recently acquired brands, CleanSource and NCP, as well as $30.7 million from net increases in comparable sales to our facilities maintenance, professional contractor and specialty distributor customers.

*Gross Profit.* Gross profit increased $47.9 million, or 15.9%, to $349.4 million in the nine months ended September 30, 2011 from $301.5 million in the nine months ended September 24, 2010. Our gross profit margin decreased 120 basis points to 36.9% for the nine months ended September 30, 2011 compared to 38.1% for the nine months ended September 24, 2010. Of this decrease, 110 basis points was related to our CleanSource and NCP acquisitions, as they have lower gross profit margins due to their product mix, while the remaining decline was primarily attributable to a shift in sales mix across various product categories.

*Selling, General and Administrative Expenses.* SG&A expenses increased $34.9 million, or 15.1%, to $266.6 million in the nine months ended September 30, 2011 from $231.7 million in the nine months ended September 24, 2010. As a percent of sales, SG&A decreased to 28.2% for the nine months ended September 30, 2011 compared to 29.2% for the nine months ended September 24, 2010. The decrease in SG&A expenses as a percentage of sales was primarily due to lower distribution consolidation expenses, lower bad debt expense, and lower occupancy related expenses, as well as the impact from our CleanSource and NCP



Table of Contents

acquisitions, as they have lower SG&A expenses as a percentage of sales, offset in part by higher delivery and fuel expenses and higher health care costs.

*Depreciation and Amortization.* Depreciation and amortization expense increased $2.9 million to $17.5 million in the nine months ended September 30, 2011 from $14.7 million in the nine months ended September 24, 2010. As a percentage of sales, depreciation and amortization was 1.9% in both the nine months ended September 30, 2011 and September 24, 2010. The increase in depreciation and amortization expense was primarily due to our CleanSource and NCP acquisitions, as well as higher depreciation resulting from higher capital spending over the last three years associated with enhancements to our information technology infrastructure and distribution center consolidation and integration efforts.

*Operating Income.* As a result of the foregoing, operating income increased $10.1 million, or 18.3%, to $65.3 million in the nine months ended September 30, 2011 from $55.2 million in the nine months ended September 24, 2010. As a percent of sales, operating income decreased to 6.9% in the nine months ended September 30, 2011 compared to 7.0% in the nine months ended September 24, 2010.

*Interest Expense.* Interest expense increased $5.2 million in the nine months ended September 30, 2011 to $18.3 million from $13.1 million in the nine months ended September 24, 2010. This increase was primarily due to a higher weighted average interest rate as our ratio of fixed versus floating rate debt increased from the series of refinancing transactions completed on November 16, 2010, which extended our debt maturities.

*Interest and Other Income.* Interest and other income decreased $0.1 million to $1.2 million in the nine months ended September 30, 2011 compared to $1.3 million in the nine months ended September 24, 2010.

*Provision for Income Taxes.* The effective tax rate for the nine months ended September 30, 2011 was 39.5% compared to 39.6% for the nine months ended September 24, 2010.

**Liquidity and Capital Resources**

*Overview*

We are a holding company whose only asset is the stock in Interline New Jersey. We conduct virtually all of our business operations through Interline New Jersey. Accordingly, our only material sources of cash are dividends and distributions with respect to our ownership interests in Interline New Jersey that are derived from the earnings and cash flow generated by Interline New Jersey.

On November 16, 2010, Interline New Jersey completed a series of refinancing transactions: (1) an offering of $300.0 million of 7.00% senior subordinated notes due 2018 (the "7.00% Notes") and (2) entering into a $225.0 million asset-based revolving credit facility (the "ABL Facility"). The proceeds from the 7.00% Notes were used to redeem $137.3 million of the $8^1/_8$% senior subordinated notes due 2014 (the "$8^1/_8$% Notes") and to repay the indebtedness under the prior credit facility of Interline New Jersey. The remaining $13.4 million of the $8^1/_8$% Notes were redeemed on January 3, 2011. The $8^1/_8$% Notes were redeemed at an average price of 104.256% of par. The loss associated with this transaction was recorded in the three months ended December 31, 2010. As a result of these refinancing transactions, Interline New Jersey extended the maturities of its fixed rate debt, and interest expense is higher when compared to 2010.

The 7.00% Notes were priced at 100% of their principal amount of $300.0 million. The 7.00% Notes mature on November 15, 2018 and interest is payable on May 15 and November 15 of each year, beginning on May 15, 2011. Debt issuance costs capitalized in connection with the 7.00% Notes were $6.9 million.

The 7.00% Notes are generally unsecured, senior subordinated obligations of Interline New Jersey that rank equal to all of Interline New Jersey' s existing and future senior subordinated indebtedness, junior to all of Interline New Jersey' s existing and future senior indebtedness, including indebtedness under the ABL Facility, and senior to any of Interline New Jersey' s existing and future obligations that are, by their terms, expressly subordinated in right of payment to the 7.00% Notes. The 7.00% Notes are unconditionally guaranteed, jointly and severally, on an unsecured senior subordinated basis by the Company and Interline New Jersey' s existing and future domestic subsidiaries that guarantee the ABL Facility (collectively, the "Guarantors"). The Guarantors have issued guarantees (each a "Guarantee" and collectively, the "Guarantees") of Interline New Jersey' s obligations under the 7.00% Notes and the indenture on an unsecured senior subordinated basis. Each Guarantee ranks equal in right of payment with all of the Guarantors' existing and future senior subordinated indebtedness, junior to all of the Guarantors' existing and future senior indebtedness, including guarantees of the ABL Facility, and senior to all of the Guarantors' existing and future obligations that are, by





their terms, expressly subordinated in right of payment to the Guarantees. The 7.00% Notes are not guaranteed by any of Interline New Jersey' s foreign subsidiaries.

The debt instruments of Interline New Jersey, primarily the ABL Facility and the indenture governing the terms of the 7.00% Notes, contain significant restrictions on the payment of dividends and distributions to the Company by Interline New Jersey. The ABL facility allows Interline New Jersey to pay dividends or make distributions to the Company for the purpose of funding a share repurchase by the Company in an aggregate amount not to exceed $25.0 million during any 12-month period, so long as there is no default and Interline New Jersey meets certain availability requirements. Only if these conditions are met and, in addition, Interline New Jersey' s fixed charge coverage ratio is at least 1.20 to 1.00, then there is no cap on Interline New Jersey' s ability to pay dividends or make distributions to fund a share repurchase by the Company. In addition, ordinary course distributions for overhead (up to $3.0 million annually) and taxes are permitted, as are annual payments of up to $7.5 million in respect of our stock option or other benefit plans for management or employees. The indenture for the 7.00% Notes generally restricts the ability of Interline New Jersey to pay distributions to the Company and to make advances to, or investments in, the Company to an amount equal to 50% of the net income of Interline New Jersey, plus an amount equal to the net proceeds from certain equity issuances, subject to compliance with a leverage ratio and no default having occurred and continuing. The indenture also contains certain permitted exceptions including (1) allowing the Company to pay our franchise taxes and other fees required to maintain our corporate existence, to pay for general corporate and overhead expenses and to pay expenses incurred in connection with certain financing, acquisition or disposition transactions, in an aggregate amount not to exceed $15.0 million per year; (2) allowing certain tax payments; and (3) allowing other distributions in an aggregate amount not to exceed the greater of $85.0 million and 8.5% of the total assets of Interline New Jersey and its restricted subsidiaries, provided there is no default. For a further description of the ABL Facility, see “Credit Facility” below.

As of September 30, 2011, we had $300.0 million of the 7.00% Notes outstanding and $188.2 million of availability under our ABL Facility, net of $7.0 million in letters of credit.

*Financial Condition*

Working capital increased by $25.9 million to $327.4 million as of September 30, 2011 from $301.6 million as of December 31, 2010. The increase in working capital was primarily funded by cash flows from operations.

*Cash Flow*

*Operating Activities.* Net cash provided by operating activities was $43.1 million in the nine months ended September 30, 2011 compared to net cash provided by operating activities of $12.4 million in the nine months ended September 24, 2010.

Net cash provided by operating activities of $43.1 million in the nine months ended September 30, 2011 primarily consisted of net income of $29.1 million, adjustments for non-cash items of $31.1 million and cash used in working capital items of $17.1 million. Adjustments for non-cash items primarily consisted of $17.5 million in depreciation and amortization of property, equipment and intangible assets, $6.6 million in deferred income taxes, $4.4 million in share-based compensation, $2.3 million in bad debt expense, and $1.0 million in amortization of debt issuance costs, partially offset by $0.9 million in excess tax benefits from share-based compensation. The cash used in working capital items consisted of $25.7 million from increased trade receivables, net of changes in our allowance for doubtful accounts, resulting from increased sales and the timing of collections, $2.8 million from increased inventory levels primarily in preparation for normal seasonal demands in our business, and $4.5 million of decreased accrued expenses and other current liabilities primarily due to lower accrued compensation resulting from the timing of payments. These items were partially offset by $0.6 million from increased trade payables balances as a result of the timing of purchases and related payments, $4.4 million from decreased prepaid expenses and other current assets primarily as a result of higher collections of rebates from vendors, $5.4 million from the increase in current income taxes resulting from an increase in income before taxes, and $5.5 million from timing of interest payments.

Net cash provided by operating activities of $12.4 million in the nine months ended September 24, 2010 primarily consisted of net income of $26.2 million, adjustments for non-cash items of $23.4 million and cash used in working capital items of $37.0 million. Adjustments for non-cash items primarily consisted of $15.0 million in depreciation and amortization of property, equipment and intangible assets, $3.6 million in bad debt expense, $3.3 million in share-based compensation net of excess tax benefits of $0.8 million, $1.3 million in deferred income taxes and $0.8 million in amortization of debt issuance costs. The cash used in working capital items primarily consisted of $33.8 million from increased inventory levels primarily as a result of seasonal inventory demands and the stocking of our new distribution centers in Chicago, Illinois, Philadelphia, Pennsylvania and Jacksonville, Florida, $16.5 million from increased trade receivables, net of changes in our allowance for doubtful accounts, resulting from increased sales and the timing of collections and $5.7 million from increased prepaid expenses and other current assets primarily as a result of higher rebates receivable from vendors.  Those items were offset by $9.2 million from increased trade payables balances as a result of the timing of purchases and related payments, $6.7 million of increased accrued expenses and other current liabilities primarily due to increased lease liabilities associated with our new distribution centers and higher accrued compensation and related benefits at period-end resulting from the timing of payments, $2.6 million from timing of interest payments and $0.3 million from the increase in income taxes payable resulting from an increase in income before taxes.

*Investing Activities.* Net cash used in investing activities was $24.6 million in the nine months ended September 30, 2011 compared to net cash used in investing activities of $12.1 million in the nine months ended September 24, 2010.

Net cash used in investing activities in the nine months ended September 30, 2011 was primarily attributable to $15.0 million of capital expenditures made in the ordinary course of business and $9.7 million in costs related to purchases of businesses.

Net cash used in investing activities in the nine months ended September 24, 2010 was primarily attributable to $12.9 million of capital expenditures associated with our distribution center consolidation projects and our information technology infrastructure, as well as those made in the ordinary course of business, offset by net proceeds from sales and maturities of short-term investments of $1.0 million.

*Financing Activities.* Net cash used in financing activities totaled $20.1 million in the nine months ended September 30, 2011 compared to net cash provided by financing activities of $4.6 million in the nine months ended September 24, 2010.

Net cash used in financing activities in the nine months ended September 30, 2011 was attributable to $11.1 million in treasury stock purchases through the $25.0 million stock repurchase authorization from our Board of Directors and treasury stock acquired to satisfy minimum statutory tax withholding requirements resulting from the vesting or exercising of equity awards, the redemption of the remaining $13.4 million of our $8^1/_8$% Notes, and $0.5 million of payments on capital lease obligations, partially offset by a $3.3 million net increase in purchase card payable and $1.5 million of proceeds from stock options exercised and excess tax benefits from share-based compensation.

Net cash provided by financing activities in the nine months ended September 24, 2010 was attributable to proceeds received from stock options exercised and related excess tax benefits of $8.0 million, partially offset by a $1.8 million repayment of term debt and capital lease obligations and a $1.5 million net decrease in purchase card payable.

*Capital Expenditures*

Capital expenditures were $15.0 million in the nine months ended September 30, 2011 compared to $12.9 million in the nine months ended September 24, 2010. Capital expenditures as a percentage of sales were 1.6% for both the nine months ended September 30, 2011 and the nine months ended September 24, 2010. The increase in capital expenditures was driven primarily by the continued consolidation of our distribution center network including the investments in larger more efficient distribution centers and enhancements to our information technology systems. In addition, during the nine months ended September 30, 2011 and September 24, 2010, we acquired leasehold improvements through non-cash lease incentives of $0.5 million and $2.4 million, respectively.

*Credit Facility*

The ABL Facility provides for revolving credit financing of up to $225.0 million subject to borrowing base availability, with a maturity of five years, including sub-facilities for letters of credit, not exceeding $40.0 million, and swingline loans. In addition, the ABL Facility provides that the revolving commitments may be increased to $325.0 million, subject to certain terms and conditions. The ABL Facility has a 5-year term and any borrowings outstanding will be due and payable in full on November 15, 2015. Debt issuance costs capitalized in connection with the ABL Facility were $3.5 million.

The borrowing base at any time equals the sum (subject to certain eligibility requirements, reserves and other adjustments) of:

- 85% of eligible trade receivables; and
- the lesser of (x) 65% of eligible inventory, valued at the lower of cost or market, and (y) 85% of the net orderly liquidation value of eligible inventory.

The ABL Facility includes borrowing capacity for letters of credit and for borrowings on same-day notice, referred to as swingline loans. All borrowings under the ABL Facility will be subject to the satisfaction of customary conditions, including absence of a default and accuracy of representations and warranties.

Borrowings under the ABL Facility bear interest at a rate per annum equal to, at Interline New Jersey' s option, either adjusted LIBOR or at an alternate base rate, in each case plus an applicable margin. As of September 30, 2011, the applicable margin was equal





to 2.25% per annum for loans bearing interest by reference to the adjusted LIBOR and 1.25% per annum for loans bearing interest by reference to the alternate base rate. The applicable margin is adjusted quarterly by reference to a grid based on average availability under the ABL Facility. The applicable margin for the upcoming quarter is expected to be 2.25% per annum for loans bearing interest by reference to the adjusted LIBOR and 1.25% per annum for loans bearing interest by reference to the alternate base rate.

In addition, Interline New Jersey is required to pay each lender a commitment fee at a rate equal to 0.50% per annum, in respect of any unused commitments if the average utilization under the ABL Facility during the preceding calendar quarter is 50% or higher, and equal to 0.625% if the average utilization under the ABL Facility during the preceding calendar quarter is less than 50%.

During any period after the occurrence and continuance of an event of default (and continuing for a certain period of time thereafter), or after availability under the ABL Facility is less than the greater of (i) $35.0 million and (ii) 17.5% of the total revolving commitments at such time (and continuing for a certain period of time thereafter), the ABL Facility, subject to exceptions, requires mandatory prepayments, but not permanent reductions of commitments, and subject to a right of reinvestment, in amounts equal to 100% of the net cash proceeds from permitted non-ordinary-course asset sales and casualty and condemnation events, as well as from any equity issuance or incurrence of debt not otherwise permitted under the ABL Facility. In addition, Interline New Jersey is required to pay down loans under the ABL Facility if the total amount of outstanding obligations thereunder exceeds the lesser of the aggregate amount of the revolving commitments thereunder and the applicable borrowing base. Interline New Jersey may prepay loans and permanently reduce commitments under the ABL Facility at any time in certain minimum principal amounts, without premium or penalty (except LIBOR breakage costs, if applicable).

Borrowings under the ABL Facility are guaranteed by the Company and Interline New Jersey' s existing and future domestic subsidiaries (collectively, the "Guarantors") and are secured by first priority liens on substantially all of the assets of Interline New Jersey and the Guarantors.

The ABL Facility requires that if excess availability is less than the greater of (a) 12.5% of the commitments and (b) $28.1 million, Interline New Jersey must comply with a minimum fixed charge coverage ratio test of 1.00:1.00 and certain other covenants. In addition, the ABL Facility includes negative covenants that, subject to significant exceptions, limit Interline New Jersey' s ability and the ability of the Guarantors to, among other things, incur debt, incur liens and engage in sale leaseback transactions, make investments and loans, pay dividends, engage in mergers, acquisitions and asset sales, prepay certain indebtedness, amend the terms of certain material agreements, enter into agreements limiting subsidiary distributions, engage in certain transactions with affiliates and alter the business that Interline New Jersey conducts.

The ABL Facility contains customary events of default, including, but not limited to, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to certain indebtedness, certain events of bankruptcy, certain events under ERISA, material judgments, actual or asserted failure of any guaranty or security document supporting the ABL Facility to be in full force and effect and changes of control. If such an event of default occurs, the lenders under the ABL Facility would be entitled to take various actions, including the acceleration of amounts due under the ABL Facility and all actions permitted to be taken by a secured creditor.

We are currently in compliance with all covenants contained within the ABL Facility.

*Liquidity*

Historically, our capital requirements have been for debt service obligations, working capital requirements, including inventory, accounts receivable and accounts payable, acquisitions, the expansion and maintenance of our distribution network and upgrades of our information systems. We expect this to continue in the foreseeable future. Historically, we have funded these requirements through cash flow generated from operating activities and funds borrowed under our credit facility. We expect our cash on hand, cash flow from operations and availability under our ABL Facility to be our primary source of funds in the future. Letters of credit, which are issued under our ABL Facility, are used to support payment obligations incurred for our general corporate purposes. We intend to fund purchases of our common stock under the share repurchase authorization with cash flows from operations.

As of September 30, 2011, we had $188.2 million of availability under our ABL Facility, net of $7.0 million in letters of credit. We believe that cash and cash equivalents on hand, cash flow from operations and available borrowing capacity under our ABL Facility will be adequate to finance our ongoing operational cash flow needs and debt service obligations in the foreseeable future.





*Contractual Obligations*

Our contractual obligations are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC. There have been no material changes to our contractual obligations since December 31, 2010.

**Critical Accounting Policies**

In preparing the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make certain estimates, judgments and assumptions. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities, including the disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. On an ongoing basis, management evaluates these estimates and assumptions. Management bases its estimates and assumptions on historical experience and on various other factors that are believed to be reasonable at the time the estimates and assumptions are made. Actual results may differ from these estimates and assumptions under different circumstances or conditions.

Our critical accounting policies are included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC. During the nine months ended September 30, 2011, there were no significant changes to any of our critical accounting policies.

**Recently Issued Accounting Standards**

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (“ASU 2011-04”). The amendments in ASU 2011-04 will provide clarification of certain fair value concepts such as principal market determination;

valuation premise and highest and best use; measuring fair value of instruments with offsetting market or counterparty credit risks; blockage factor and other premiums and discounts; and liabilities and instruments classified in shareholders' equity. In addition, the pronouncement will provide guidance for new disclosures such as transfers between Level 1 and Level 2 of the fair value hierarchy; Level 3 fair value measurements; an entity' s use of an asset when it is different from its highest and best use; and fair value hierarchy disclosures for financial instruments not measured at fair value but disclosed. This pronouncement is effective for reporting periods beginning after December 15, 2011, with early adoption prohibited. The new guidance will require prospective application. We believe the adoption of this guidance will primarily affect certain disclosures related to fair value and will not have a material impact on the Company' s financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). This pronouncement will bring consistency to the way reporting entities disclose comprehensive income in their consolidated financial statements and related notes. ASU 2011-05 will no longer permit disclosure of comprehensive income in either the statement of shareholders' equity or in a note to the consolidated financial statements. Instead, reporting entities will have two options for presenting comprehensive income. The first option presents comprehensive income in a single statement, which includes two components: net income and other comprehensive income. The second option allows the presentation of comprehensive income in two separate but consecutive statements: one for net income and the other for other comprehensive income. This pronouncement is effective for reporting periods beginning after December 15, 2011, with early adoption permitted. The new guidance will require retrospective application. Because this ASU impacts presentation only, adoption will not have an impact on the Company' s financial condition, results of operations or cash flows.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles − Goodwill and Other (Topic 350)* ("ASU 2011-08"). The amendments in ASU 2011-08 are intended to simplify how entities test goodwill for impairment. The amendments will permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Because this guidance only enhances the steps performed to determine whether a potential impairment exists (but should not impact the resulting conclusion), the adoption will not have an impact on the Company' s financial condition, results of operations, or cash flows.





**ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

*Commodity Price Risk*

We are aware of the potentially unfavorable effects inflationary pressures may create through higher product and material costs, higher asset replacement costs and related depreciation and higher interest rates. In addition, our operating performance is affected by price fluctuations in copper, oil, stainless steel, aluminum, zinc, plastic and PVC and other commodities and raw materials. We seek to minimize the effects of inflation and changing prices through economies of purchasing and inventory management resulting in cost reductions and productivity improvements as well as price increases to maintain reasonable profit margins. However, such commodity price fluctuations have from time to time created cyclicality in our financial performance, and could continue to do so in the future. In addition, our use of priced catalogs may not allow us to offset such cost increases quickly, resulting in a decrease in gross margins and profit.

*Interest Rate Risk*

The fair market value of our 7.00% Notes is subject to interest rate risk. As of September 30, 2011, the estimated fair market value of our 7.00% Notes was approximately $293.3 million, or 97.8% of par.

*Foreign Currency Exchange Risk*

The majority of our purchases from foreign-based suppliers is from China and other countries in Asia and is transacted in U.S. dollars. Accordingly, our exposure to risk from foreign currency exchange rates was not material as of September 30, 2011.

A substantial portion of our products is sourced from suppliers in China. The value of the Chinese Yuan has increased relative to the U.S. dollar since July 2005, when it was allowed to fluctuate against a basket of foreign currencies. Most experts believe that the value of the Yuan will continue to increase relative to the U.S. dollar over the next few years. Such appreciation would most likely result in an increase in the cost of products that are sourced from suppliers in China.

In addition, many of our suppliers price their products in currencies other than the U.S. dollar or incur costs of production in non-U.S. currencies. Accordingly, depreciation of the U.S. dollar against foreign currencies could increase the price we pay for these products.

*Derivative Financial Instruments*

As of September 30, 2011, we did not have any interest rate exchange agreements or swaps. Historically, we entered into derivative financial instruments from time to time, including interest rate exchange agreements or swaps, to manage our exposure to fluctuations in interest rates on our debt.

We periodically evaluate the costs and benefits of any changes in our market risks. Based on such evaluations, we may enter into new derivative financial instruments to manage our exposures. Our derivative activities, all of which are for purposes other than trading, are initiated within the guidelines of corporate risk-management policies.

**ITEM 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2011. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2011, our disclosure controls and procedures were effective to (1) ensure that material information disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and (2) ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC' s rules and forms.

*Changes in Internal Control over Financial Reporting*

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

We have been named as a defendant in an action filed before the Nineteenth Judicial Circuit Court of Lake County, Illinois, which was subsequently removed to the United States District Court for the Northern District of Illinois. The complaint alleges that we sent thousands of unsolicited fax advertisements to businesses nationwide in violation of the Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005 ("TCPA"). At the time of filing the complaint, the plaintiff also filed a motion asking the Court to certify a class of plaintiffs comprised of businesses who allegedly received unsolicited fax advertisements from us. Other reported TCPA claims have resulted in a broad range of outcomes, with each case being dependent on its own unique set of facts and circumstances. Accordingly, we cannot reasonably estimate the amount of loss, if any, arising from this matter. We are vigorously contesting class action certification and liability, and will continue to evaluate our defenses based upon our internal review and investigation of prior events, new information, and future circumstances.

We are involved in various other legal proceedings that have arisen in the ordinary course of our business and have not been fully adjudicated. These actions, when ultimately concluded and determined, will not, in the opinion of management, have a material effect upon our consolidated financial position, results of operations or liquidity.

### ITEM 1A. Risk Factors

For information regarding factors that could affect our financial position, results of operations and cash flows, see the risk factors discussion provided in our Annual Report on Form 10-K for the year ended December 31, 2010 in Part I. Item 1A. Risk Factors. See also "Part I. Item 2−Forward-Looking Statements" above.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

*Unregistered Sales of Equity Securities*

None.

*Purchases of Equity Securities by the Issuer*

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Repurchase Authorization (2) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Authorization |
|---|---|---|---|---|
| July 2011 | | | | |
| (July 2 - July 29) | – | – | – | – |
| August 2011 | | | | |
| (July 30 - August 26) | 204,447 | $13.84 | 204,183 | $22,544,442 |
| September 2011 | | | | |
| (August 27 - September 30) | 601,255 | $13.65 | 601,255 | $14,338,912 |
| Total | 805,702 | $13.70 | 805,438 | $14,338,912 (3) |

(1) Includes 264 shares purchased to satisfy minimum tax withholding requirements through open market transactions at an average cost of $13.50 per share.

(2) On August 15, 2011, the Company announced that its Board of Directors had authorized the repurchase of up to an aggregate amount of $25.0 million of the Company' s common stock (the "Authorization"). The Authorization does not have an expiration date and may be modified, suspended, or discontinued by the Board of Directors at any time, in accordance with applicable securities laws.





(3) Subsequent to September 30, 2011 and through November 3, 2011, the Company repurchased an additional 494,718 shares of common stock pursuant to the Authorization at an aggregate cost of $6.9 million, or an average cost of $13.92 per share, through open market transactions, thereby reducing the approximate dollar value of shares that may yet be purchased under the Authorization subsequent to November 3, 2011 to $7.1 million.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. (Removed and Reserved)**

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

The following exhibits are being filed as part of this Quarterly Report on Form 10-Q:

| | |
|---|---|
| 12.1 | Computation of earnings to fixed charges and earnings to combined fixed charges and preferred dividends of Interline Brands, Inc. (furnished herewith). |
| 31.1 | Certification of the Chief Executive Officer of Interline Brands, Inc., pursuant to Rule 13a-14 of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 31.2 | Certification of the Chief Financial Officer of Interline Brands, Inc., pursuant to Rule 13a-14 of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 32.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 32.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 101.INS * | XBRL Instance Document |
| 101.SCH * | XBRL Taxonomy Extension Schema Document |
| 101.CAL * | XBRL Taxonomy Extension Calculation Linkbase Document |

| | |
|---|---|
| 101.DEF * | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB * | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE * | XBRL Taxonomy Extension Presentation Linkbase Document |

* Attached as Exhibit 101 to this report are the following items formatted in XBRL (Extensible Business Reporting Language):

1 Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010;
2 Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2011 and September 24, 2010;
3 Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and September 24, 2010; and
4 Notes to Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.



Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**INTERLINE BRANDS, INC.**
Registrant

Date: November 7, 2011

By: /S/ JOHN A. EBNER
John A. Ebner
Chief Financial Officer
(Duly Authorized Signatory and Principal Financial Officer)

**Exhibit 12.1**

**Ratio of Earnings to Fixed Charges**
**(amounts in thousands other than ratios)**

| | Year Ended | | | | | Three Months Ended | Nine Months Ended |
|---|---|---|---|---|---|---|---|
| | December 29, 2006 | December 28, 2007 | December 26, 2008 | December 25, 2009 | December 31, 2010 | September 30, 2011 | September 30, 2011 |
| **Earnings:** | | | | | | | |
| Income before income taxes | $ 50,680 | $ 83,422 | $ 65,458 | $ 43,161 | $ 46,750 | $ 20,423 | $ 48,154 |
| Fixed charges (from below) | 38,901 | 43,711 | 39,218 | 29,600 | 28,665 | 8,847 | 26,410 |
| Total earnings | $ 89,581 | $ 127,133 | $ 104,676 | $ 72,761 | $ 75,415 | $ 29,270 | $ 74,564 |
| **Fixed Charges:** | | | | | | | |
| Interest expense | $ 31,367 | $ 33,923 | $ 28,482 | $ 19,044 | $ 18,710 | $ 6,138 | $ 18,327 |
| Interest in rent expense estimated at 30% of rent expense | 7,534 | 9,788 | 10,736 | 10,556 | 9,955 | 2,709 | 8,083 |
| Total fixed charges(1) | $ 38,901 | $ 43,711 | $ 39,218 | $ 29,600 | $ 28,665 | $ 8,847 | $ 26,410 |
| **Ratio of Earnings to Fixed Charges** | 2.3 | 2.9 | 2.7 | 2.5 | 2.6 | 3.3 | 2.8 |

(1) Preferred security dividends of Interline New Jersey are excluded from fixed charges as preferred stock is held solely by corporate parent.

**Ratio of Earnings to Combined Fixed Charges and Preferred Dividends**
**(amounts in thousands other than ratios)**

| | Year Ended | | | | | Three Months Ended | Nine Months Ended |
|---|---|---|---|---|---|---|---|
| | December 29, 2006 | December 28, 2007 | December 26, 2008 | December 25, 2009 | December 31, 2010 | September 30, 2011 | September 30, 2011 |
| **Earnings:** | | | | | | | |
| Income before income taxes | $ 50,680 | $ 83,422 | $ 65,458 | $ 43,161 | $ 46,750 | $ 20,423 | $ 48,154 |
| Fixed charges (from below) | 38,901 | 43,711 | 39,218 | 29,600 | 28,665 | 8,847 | 26,410 |
| Total earnings | $ 89,581 | $ 127,133 | $ 104,676 | $ 72,761 | $ 75,415 | $ 29,270 | $ 74,564 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Fixed Charges:** | | | | | | | |
| Interest expense | $ 31,367 | $ 33,923 | $ 28,482 | $ 19,044 | $ 18,710 | $ 6,138 | $ 18,327 |
| Interest in rent expense estimated at 30% of rent expense | 7,534 | 9,788 | 10,736 | 10,556 | 9,955 | 2,709 | 8,083 |
| Total fixed charges(1) | $ 38,901 | $ 43,711 | $ 39,218 | $ 29,600 | $ 28,665 | $ 8,847 | $ 26,410 |
| Preferred dividends (calculated below) | $ – | $ – | $ – | $ – | $ – | $ – | $ – |
| Total combined fixed charges and preferred dividends | $ 38,901 | $ 43,711 | $ 39,218 | $ 29,600 | $ 28,665 | $ 8,847 | $ 26,410 |
| **Ratio of Earnings to Combined Fixed Charges and Preferred Dividends** | 2.3 | 2.9 | 2.7 | 2.5 | 2.6 | 3.3 | 2.8 |
| **(Surplus)** | **$ (50,680)** | **$ (83,422)** | **$ (65,458)** | **$ (43,161)** | **$ (46,750)** | **$ (20,423)** | **$ (48,154)** |
| **Preferred Dividends:** | | | | | | | |
| Preferred dividend amount(1) | $ – | $ – | $ – | $ – | $ – | $ – | $ – |
| Tax rate | 38.5% | 38.9% | 37.6% | 39.6% | 40.3% | 39.4% | 39.5% |
| Preferred dividends | $ – | $ – | $ – | $ – | $ – | $ – | $ – |

(1) Preferred security dividends of Interline New Jersey are excluded from fixed charges as preferred stock is held solely by corporate parent.

**Exhibit 31.1**

**CERTIFICATION**

I, Michael J. Grebe, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Interline Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’ s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’ s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’ s internal control over financial reporting that occurred during the registrant’ s most recent fiscal quarter (the registrant’ s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’ s internal control over financial reporting; and

5. The registrant’ s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’ s auditors and the audit committee of registrant’ s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’ s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’ s internal control over financial reporting.

Date: November 7, 2011

By /S/ MICHAEL J. GREBE

Name: Michael J. Grebe

Title: Chairman of the Board and Chief Executive Officer

**Exhibit 31.2**

## CERTIFICATION

I, John A. Ebner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Interline Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: November 7, 2011

By: /S/ JOHN A. EBNER
Name: John A. Ebner
Title: Chief Financial Officer

**Exhibit 32.1**

**INTERLINE BRANDS, INC.**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Interline Brands, Inc. (the "Company") for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael J. Grebe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ MICHAEL J. GREBE
Michael J. Grebe
Chairman of the Board and Chief Executive Officer
November 7, 2011

**Exhibit 32.2**

**INTERLINE BRANDS, INC.**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Interline Brands, Inc. (the "Company") for the period ended September 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Ebner, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JOHN A. EBNER

John A. Ebner
Chief Financial Officer
November 7, 2011

| CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (USD $) In Thousands, except Share data | 3 Months Ended | | 9 Months Ended | |
|---|---|---|---|---|
| | Sep. 30, 2011 | Sep. 24, 2010 | Sep. 30, 2011 | Sep. 24, 2010 |
| Net sales | $ 331,349 | $ 276,821 | $ 946,445 | $ 792,193 |
| Cost of sales | 209,008 | 171,991 | 597,029 | 490,649 |
| Gross profit | 122,341 | 104,830 | 349,416 | 301,544 |
| **Operating Expenses:** | | | | |
| Selling, general and administrative expenses | 90,253 | 76,987 | 266,592 | 231,686 |
| Depreciation and amortization | 5,926 | 4,981 | 17,531 | 14,667 |
| Total operating expenses | 96,179 | 81,968 | 284,123 | 246,353 |
| Operating income | 26,162 | 22,862 | 65,293 | 55,191 |
| Interest expense | (6,138) | (4,373) | (18,327) | (13,092) |
| Interest and other income | 399 | 541 | 1,188 | 1,266 |
| Income before income taxes | 20,423 | 19,030 | 48,154 | 43,365 |
| Income taxes | 8,041 | 7,518 | 19,033 | 17,192 |
| Net income | $ 12,382 | $ 11,512 | $ 29,121 | $ 26,173 |
| **Earnings Per Share:** | | | | |
| Basic (in dollars per share) | $ 0.37 | $ 0.35 | $ 0.87 | $ 0.79 |
| Diluted (in dollars per share) | $ 0.37 | $ 0.34 | $ 0.86 | $ 0.78 |
| **Weighted-Average Shares Outstanding:** | | | | |
| Basic (in shares) | 33,271,753 | 33,084,756 | 33,359,746 | 32,931,814 |
| Diluted (in shares) | 33,860,017 | 33,796,615 | 34,045,996 | 33,685,652 |

| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (USD $) In Thousands | 9 Months Ended | |
|---|---|---|
| | Sep. 30, 2011 | Sep. 24, 2010 |
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 29,121 | $ 26,173 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Depreciation and amortization | 17,531 | 14,970 |
| Amortization of debt issuance costs | 1,020 | 775 |
| Amortization of discount on 8 1/8% senior subordinated notes | | 115 |
| Share-based compensation | 4,425 | 3,299 |
| Excess tax benefits from share-based compensation | (858) | (775) |
| Deferred income taxes | 6,571 | 1,270 |
| Provision for doubtful accounts | 2,256 | 3,629 |
| Loss on disposal of property and equipment | 107 | 129 |
| **Changes in assets and liabilities which provided (used) cash, net of business acquired:** | | |
| Accounts receivable - trade | (25,690) | (16,499) |
| Inventory | (2,751) | (33,756) |
| Prepaid expenses and other current assets | 4,406 | (5,670) |
| Other assets | 181 | (97) |
| Accounts payable | 614 | 9,235 |
| Accrued expenses and other current liabilities | (4,548) | 6,691 |
| Accrued interest | 5,521 | 2,609 |
| Income taxes | 5,394 | 345 |
| Other liabilities | (238) | 6 |
| Net cash provided by operating activities | 43,062 | 12,449 |
| **Cash Flows from Investing Activities:** | | |
| Purchase of property and equipment, net | (15,036) | (12,937) |
| Purchase of short-term investments | | (3,002) |
| Proceeds from sales and maturities of short-term investments | 100 | 4,012 |
| Purchase of businesses, net of cash acquired | (9,695) | (145) |
| Net cash used in investing activities | (24,631) | (12,072) |
| **Cash Flows from Financing Activities:** | | |
| Increase (decrease) in purchase card payable, net | 3,341 | (1,463) |
| Repayment of term debt | | (1,590) |
| Repayment of 8 1/8 % senior subordinated notes | (13,358) | |
| Payment of debt issuance costs | (34) | |
| Payments on capital lease obligations | (467) | (198) |
| Proceeds from stock options exercised | 641 | 7,211 |
| Excess tax benefits from share-based compensation | 858 | 775 |
| Purchases of treasury stock | (11,108) | (97) |
| Net cash (used in) provided by financing activities | (20,127) | 4,638 |

| | | |
|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | (157) | 66 |
| Net (decrease) increase in cash and cash equivalents | (1,853) | 5,081 |
| Cash and cash equivalents at beginning of period | 86,981 | 99,223 |
| Cash and cash equivalents at end of period | 85,128 | 104,304 |
| **Cash paid during the period for:** | | |
| Interest | 11,469 | 9,410 |
| Income taxes, net of refunds | 8,111 | 15,644 |
| **Schedule of Non-Cash Investing and Financing Activities:** | | |
| Treasury stock acquired through accrued liabilities | 957 | |
| Property acquired through lease incentives | 475 | 2,445 |
| Adjustments to liabilities assumed and goodwill on businesses acquired | 163 | |
| Contingent consideration associated with purchase of business | $ 250 | |

| CONDENSED CONSOLIDATED BALANCE SHEETS (USD $) In Thousands | Sep. 30, 2011 | Dec. 31, 2010 |
|---|---|---|
| **Current Assets:** | | |
| Cash and cash equivalents | $ 85,128 | $ 86,981 |
| Short-term investments | | 100 |
| Accounts receivable - trade (net of allowance for doubtful accounts of $7,310 and $9,088) | 149,925 | 122,619 |
| Inventory | 210,506 | 203,269 |
| Prepaid expenses and other current assets | 23,545 | 28,816 |
| Income taxes receivable | 853 | 2,086 |
| Deferred income taxes | 15,422 | 17,381 |
| Total current assets | 485,379 | 461,252 |
| Property and equipment, net | 57,433 | 54,546 |
| Goodwill | 344,645 | 341,168 |
| Other intangible assets, net | 136,350 | 141,562 |
| Other assets | 8,999 | 9,081 |
| Total assets | 1,032,806 | 1,007,609 |
| **Current Liabilities:** | | |
| Accounts payable | 100,555 | 96,878 |
| Accrued expenses and other current liabilities | 45,262 | 45,181 |
| Accrued interest | 8,377 | 2,852 |
| Income taxes payable | 3,255 | 819 |
| Current portion of long-term debt | | 13,358 |
| Current portion of capital leases | 523 | 607 |
| Total current liabilities | 157,972 | 159,695 |
| **Long-Term Liabilities:** | | |
| Deferred income taxes | 48,872 | 44,045 |
| Long-term debt, net of current portion | 300,000 | 300,000 |
| Capital leases, net of current portion | 523 | 906 |
| Other liabilities | 6,620 | 6,731 |
| Total liabilities | 513,987 | 511,377 |
| Commitments and contingencies (see Note 8) | | |
| Senior preferred stock; $0.01 par value, 20,000,000 authorized; none outstanding as of September 30, 2011 and December 31, 2010 | | |
| **Stockholders' Equity:** | | |
| Common stock; $0.01 par value, 100,000,000 authorized; 33,529,227 issued and 32,554,823 outstanding as of September 30, 2011 and 33,336,373 issued and 33,214,073 outstanding as of December 31, 2010 | 335 | 333 |
| Additional paid-in capital | 598,954 | 593,031 |
| Accumulated deficit | (67,703) | (96,824) |
| Accumulated other comprehensive income | 1,470 | 1,865 |

| | | |
|---|---|---|
| Treasury stock, at cost, 974,404 shares as of September 30, 2011 and 122,300 as of December 31, 2010 | (14,237) | (2,173) |
| Total stockholders' equity | 518,819 | 496,232 |
| Total liabilities and stockholders' equity | $ 1,032,806 | $ 1,007,609 |

**SHARE-BASED COMPENSATION**

**9 Months Ended Sep. 30, 2011**

**SHARE-BASED COMPENSATION**
SHARE-BASED COMPENSATION

**7. SHARE-BASED COMPENSATION**

During the three months ended September 30, 2011 and September 24, 2010, share-based compensation expense was $1.6  million and $1.3 million, respectively. During the nine months ended September 30, 2011 and September 24, 2010, share-based compensation expense was $4.4 million and $3.3 million, respectively. As of September 30, 2011, there was $10.4 million of total unrecognized share-based compensation expense related to unvested share-based payment awards. The expense is expected to be recognized over a weighted-average period of 2.4 years.

During both the three months ended September 30, 2011 and September 24, 2010, the Company did not grant any stock options. During the nine months ended September 30, 2011 and September 24, 2010, the Company granted 377,659 and 292,473 stock options, respectively, with a weighted-average grant date fair value of $8.33 and $7.21, respectively. The fair values of stock options were estimated using the Black-Scholes option-pricing model. Expected volatility is based on historical performance of the Company' s stock. The Company also considers historical data to estimate the timing and amount of stock option exercises and forfeitures. The expected life represents the period of time that stock options are expected to remain outstanding and is based on the contractual term of the stock options and expected exercise behavior. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected option life assumed at the date of grant.

The Black-Scholes weighted-average assumptions were as follows:

| | Nine Months Ended | |
|---|---|---|
| | September 30, 2011 | September 24, 2010 |
| Expected volatility | 41.0% | 41.5% |
| Expected dividends | 0.0% | 0.0% |
| Risk-free interest rate | 2.1% | 2.4% |
| Expected life (in years) | 5.0 | 5.0 |

During the three months ended September 30, 2011 and September 24, 2010, there were 1,875 and 15,924 stock options exercised, respectively, with an intrinsic value of less than $0.1 million in each period. During the nine months ended September 30, 2011 and September 24, 2010, there were 41,962 and 481,573 stock options exercised with an intrinsic value of $0.2 million and $2.1 million, respectively.

A summary status of restricted stock, restricted share units, and deferred stock units as of September 30, 2011 and changes during the nine months then ended is presented below:

| | Restricted Stock | | Restricted Share Units | | Deferred Stock Units | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value | Shares | Weighted-Average Grant Date Fair Value |
| Outstanding at December 31, 2010 | 8,050 | $ 23.84 | 659,576 | $ 12.06 | 93,134 | $ 19.27 |
| Granted | – | – | 160,670 | 20.15 | 25,123 | 19.53 |
| Vested | (1,000) | 22.92 | (150,892) | 8.10 | – | – |
| Forfeited | – | – | (5,767) | 9.06 | – | – |

| | | | | | | |
|---|---|---|---|---|---|---|
| Outstanding at September 30, 2011 | 7,050 | $ 23.97 | 663,587 | $ 14.94 | 118,257 | $ 19.32 |

During the three months ended September 30, 2011, 1,000 restricted stock awards vested, with a fair value of less than $0.1 million. During the three months ended September 24, 2010, zero restricted stock awards vested. During the nine months ended September 30, 2011 and September 24, 2010, 1,000 and 2,300 restricted stock awards vested, respectively, with fair values of less than $0.1 million in each period.

During the three months ended September 30, 2011 and September 24, 2010, zero restricted share units vested. During the nine months ended September 30, 2011 and September 24, 2010, 150,892 and 19,548 restricted share units vested with a fair value of $3.2 million and $0.3 million, respectively.

**ACCOUNTS RECEIVABLE**

**9 Months Ended Sep. 30, 2011**

**ACCOUNTS RECEIVABLE**

ACCOUNTS RECEIVABLE

**3. ACCOUNTS RECEIVABLE**

The Company' s trade receivables are exposed to credit risk. The majority of the markets served by the Company are comprised of numerous individual accounts. The Company monitors the creditworthiness of its customers on an ongoing basis and provides a reserve for estimated bad debt losses. If the financial condition of the Company' s customers were to deteriorate, increases in its allowance for doubtful accounts may be needed.

The activity in the allowance for doubtful accounts consisted of the following (in thousands):

| Balance at December 31, 2010 | Charged to Expense | Deductions | Balance at September 30, 2011 |
|---|---|---|---|
| $ 9,088 | $ 2,256 | $ (4,034) | $ 7,310 |

| STOCKHOLDERS' EQUITY | 9 Months Ended Sep. 30, 2011 |
|---|---|
| **STOCKHOLDERS' EQUITY** | |
| STOCKHOLDERS' EQUITY | **9. STOCKHOLDERS' EQUITY**<br><br>In August 2011, the Company's Board of Directors authorized the repurchase of up to an aggregate of $25.0 million of the Company's outstanding common stock. Share repurchases made under this authorization are expected to be accomplished from time to time based on market conditions, the Company's cash and debt position, and other factors as determined by management. The authorization does not have an expiration date and may be modified, suspended, or discontinued by the Board of Directors at any time, in accordance with applicable securities laws. Shares may be repurchased through open market or privately negotiated transactions. The Company plans to fund share repurchases with cash generated from operations. During the nine months ended September 30, 2011, the Company repurchased 805,438 shares of common stock pursuant to this authorization at an aggregate cost of $11.0 million, or an average cost of $13.70 per share, through open market transactions. Subsequent to September 30, 2011 and through November 3, 2011, the Company repurchased an additional 494,718 shares of common stock pursuant to this authorization at an aggregate cost of $6.9 million, or an average cost of $13.92 per share, through open market transactions. In total, the Company has repurchased 1,300,156 shares of common stock pursuant to this authorization at an aggregate cost of $17.9 million, or an average cost of $13.78 per share. The Company used cash flows from operating activities to pay the purchase price for the repurchased shares. The repurchased shares have become treasury shares. |

| GUARANTOR SUBSIDIARIES | 9 Months Ended Sep. 30, 2011 |
|---|---|

**GUARANTOR SUBSIDIARIES**

GUARANTOR SUBSIDIARIES

**10. GUARANTOR SUBSIDIARIES**

The 7.00% senior subordinated notes of Interline New Jersey (the "Subsidiary Issuer"), issued in November 2010, are, and the $8^{1}/_{8}$% senior subordinated notes, fully redeemed in January 2011, were, fully and unconditionally guaranteed, jointly and severally, on an unsecured senior subordinated basis by Interline Brands, Inc. (the "Parent Company") and all of Interline New Jersey' s 100% owned domestic subsidiaries: Wilmar Holdings, Inc., Wilmar Financial, Inc., and Glenwood Acquisition LLC (collectively the "Guarantor Subsidiaries"). The guarantees by the Parent Company and the Guarantor Subsidiaries are senior to any of their existing and future subordinated obligations, equal in right of payment with any of their existing and future senior subordinated indebtedness and subordinated to any of their existing and future senior indebtedness.

The Parent Company is a holding company whose only asset is the stock of its subsidiaries. The Parent Company conducts virtually all of its business operations through the Subsidiary Issuer. Accordingly, the Parent Company' s only material sources of cash are dividends and distributions with respect to its ownership interests in the Subsidiary Issuer that are derived from the earnings and cash flow generated by the Subsidiary Issuer. Through September 30, 2011, dividends totaling $12.1 million have been paid to the Parent Company from the Subsidiary Issuer for the purpose of funding the share repurchase that occurred during the quarter.

The following tables set forth, on a condensed consolidating basis, the balance sheets, statements of operations and statements of cash flows for the Parent Company, Subsidiary Issuer and Guarantor Subsidiaries for all financial statement periods presented in the Company' s condensed consolidated financial statements. The non-guarantor subsidiaries are minor and are included in the condensed financial data of the Subsidiary Issuer. The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Parent Company or the Guarantor Subsidiaries; therefore, the following tables do not reflect any such allocation.

**CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)**
**AS OF SEPTEMBER 30, 2011**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ − | $ 85,095 | $ 33 | $ − | $ 85,128 |
| Accounts receivable - trade, net | − | 149,925 | − | − | 149,925 |
| Inventory | − | 210,506 | − | − | 210,506 |
| Intercompany receivable | − | − | 195,105 | (195,105) | − |
| Other current assets | − | 39,819 | 1 | − | 39,820 |
| Total current assets | − | 485,345 | 195,139 | (195,105) | 485,379 |
| | | | | | |
| Property and equipment, net | − | 57,433 | − | − | 57,433 |
| Goodwill | − | 344,645 | − | − | 344,645 |
| Other intangible assets, net | − | 136,350 | − | − | 136,350 |

| | | | | | |
|---|---|---|---|---|---|
| Investment in subsidiaries | 518,819 | 199,418 | – | (718,237) | – |
| Other assets | – | 2,455 | 6,544 | – | 8,999 |
| Total assets | $ 518,819 | $1,225,646 | $ 201,683 | $ (913,342) | $1,032,806 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | $ – | $ 100,555 | $ – | $ – | $ 100,555 |
| Accrued expenses and other current liabilities | – | 54,629 | 2,265 | – | 56,894 |
| Intercompany payable | – | 195,105 | – | (195,105) | – |
| Current portion of long-term debt and capital leases | – | 523 | – | – | 523 |
| Total current liabilities | – | 350,812 | 2,265 | (195,105) | 157,972 |
| Long-Term Liabilities: | | | | | |
| Long-term debt and capital leases, net of current portion | – | 300,523 | – | – | 300,523 |
| Other liabilities | – | 55,492 | – | – | 55,492 |
| Total liabilities | – | 706,827 | 2,265 | (195,105) | 513,987 |
| Senior preferred stock | – | 965,441 | – | (965,441) | – |
| Stockholders' equity (deficit) | 518,819 | (446,622) | 199,418 | 247,204 | 518,819 |
| Total liabilities and stockholders' equity | $ 518,819 | $1,225,646 | $ 201,683 | $ (913,342) | $1,032,806 |

**CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)**
**AS OF DECEMBER 31, 2010**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | $ – | $ 86,919 | $ 62 | $ – | $ 86,981 |
| Short-term investments | – | 100 | – | – | 100 |
| Accounts receivable - trade, net | – | 122,619 | – | – | 122,619 |
| Inventory | – | 203,269 | – | – | 203,269 |
| Intercompany receivable | – | – | 144,759 | (144,759) | – |
| Other current assets | – | 48,278 | 5 | – | 48,283 |
| Total current assets | – | 461,185 | 144,826 | (144,759) | 461,252 |
| Property and equipment, net | – | 54,546 | – | – | 54,546 |
| Goodwill | – | 341,168 | – | – | 341,168 |
| Other intangible assets, net | – | 141,562 | – | – | 141,562 |
| Investment in subsidiaries | 496,232 | 149,446 | – | (645,678) | – |
| Other assets | – | 2,542 | 6,539 | – | 9,081 |
| Total assets | $ 496,232 | $1,150,449 | $ 151,365 | $ (790,437) | $1,007,609 |

| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
|---|---|---|---|---|---|
| Current Liabilities: | | | | | |
| Accounts payable | $ – | $ 96,878 | $ – | $ – | $ 96,878 |
| Accrued expenses and other current liabilities | – | 46,933 | 1,919 | – | 48,852 |
| Intercompany payable | – | 144,759 | – | (144,759) | – |
| Current portion of long-term debt and capital leases | – | 13,965 | – | – | 13,965 |
| Total current liabilities | – | 302,535 | 1,919 | (144,759) | 159,695 |
| Long-Term Liabilities: | | | | | |
| Long-term debt and capital leases, net of current portion | – | 300,906 | – | – | 300,906 |
| Other liabilities | – | 50,776 | – | – | 50,776 |
| Total liabilities | – | 654,217 | 1,919 | (144,759) | 511,377 |
| Senior preferred stock | – | 871,014 | – | (871,014) | – |
| Stockholders' equity (deficit) | 496,232 | (374,782) | 149,446 | 225,336 | 496,232 |
| Total liabilities and stockholders' equity | $ 496,232 | $1,150,449 | $ 151,365 | $ (790,437) | $1,007,609 |

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**
**FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $331,349 | $ – | $ – | $ 331,349 |
| Cost of sales | – | 209,008 | – | – | 209,008 |
| Gross profit | – | 122,341 | – | – | 122,341 |
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 95,214 | 7 | (4,968) | 90,253 |
| Depreciation and amortization | – | 5,926 | – | – | 5,926 |
| Other operating income | – | – | (4,968) | 4,968 | – |
| Equity earnings of subsidiaries | (12,382) | (3,896) | – | 16,278 | – |
| Total operating expenses | (12,382) | 97,244 | (4,961) | 16,278 | 96,179 |
| Operating income | 12,382 | 25,097 | 4,961 | (16,278) | 26,162 |
| Interest and other (expense) income, net | – | (6,625) | 886 | – | (5,739) |
| Income before income taxes | 12,382 | 18,472 | 5,847 | (16,278) | 20,423 |
| Income taxes | – | 6,090 | 1,951 | – | 8,041 |
| Net income | 12,382 | 12,382 | 3,896 | (16,278) | 12,382 |
| Preferred stock dividends | – | (32,561) | – | 32,561 | – |

| | | | | | |
|---|---|---|---|---|---|
| Net income (loss) attributable to common stockholders | $ 12,382 | $ (20,179) | $ 3,896 | $ 16,283 | $ 12,382 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**
**FOR THE THREE MONTHS ENDED SEPTEMBER 24, 2010**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $276,821 | $ – | $ – | $ 276,821 |
| Cost of sales | – | 171,991 | – | – | 171,991 |
| Gross profit | – | 104,830 | – | – | 104,830 |
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 81,088 | 7 | (4,108) | 76,987 |
| Depreciation and amortization | – | 4,981 | – | – | 4,981 |
| Other operating income | – | – | (4,108) | 4,108 | – |
| Equity earnings of subsidiaries | (11,512) | (3,436) | – | 14,948 | – |
| Total operating expenses | (11,512) | 82,633 | (4,101) | 14,948 | 81,968 |
| Operating income | 11,512 | 22,197 | 4,101 | (14,948) | 22,862 |
| Interest and other (expense) income, net | – | (4,683) | 851 | – | (3,832) |
| Income before income taxes | 11,512 | 17,514 | 4,952 | (14,948) | 19,030 |
| Income taxes | – | 6,002 | 1,516 | – | 7,518 |
| Net income | 11,512 | 11,512 | 3,436 | (14,948) | 11,512 |
| Preferred stock dividends | – | (28,313) | – | 28,313 | – |
| Net income (loss) attributable to common stockholders | $ 11,512 | $ (16,801) | $ 3,436 | $ 13,365 | $ 11,512 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $946,445 | $ – | $ – | $ 946,445 |
| Cost of sales | – | 597,029 | – | – | 597,029 |
| Gross profit | – | 349,416 | – | – | 349,416 |

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 281,042 | 23 | (14,473) | 266,592 |
| Depreciation and amortization | – | 17,531 | – | – | 17,531 |
| Other operating income | – | – | (14,473) | 14,473 | – |
| Equity earnings of subsidiaries | (29,121) | (11,104) | – | 40,225 | – |
| Total operating expenses | (29,121) | 287,469 | (14,450) | 40,225 | 284,123 |
| Operating income | 29,121 | 61,947 | 14,450 | (40,225) | 65,293 |
| Interest and other (expense) income, net | – | (19,482) | 2,343 | – | (17,139) |
| Income before income taxes | 29,121 | 42,465 | 16,793 | (40,225) | 48,154 |
| Income taxes | – | 13,344 | 5,689 | – | 19,033 |
| Net income | 29,121 | 29,121 | 11,104 | (40,225) | 29,121 |
| Preferred stock dividends | – | (94,426) | – | 94,426 | – |
| Net income (loss) attributable to common stockholders | $ 29,121 | $ (65,305) | $ 11,104 | $ 54,201 | $ 29,121 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 24, 2010**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries(1) | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ – | $792,193 | $ – | $ – | $ 792,193 |
| Cost of sales | – | 490,649 | – | – | 490,649 |
| Gross profit | – | 301,544 | – | – | 301,544 |
| Operating Expenses: | | | | | |
| Selling, general and administrative expenses | – | 243,520 | 21 | (11,855) | 231,686 |
| Depreciation and amortization | – | 14,667 | – | – | 14,667 |
| Other operating income | – | – | (11,855) | 11,855 | – |
| Equity earnings of subsidiaries | (26,173) | (9,560) | – | 35,733 | – |
| Total operating expenses | (26,173) | 248,627 | (11,834) | 35,733 | 246,353 |
| Operating income | 26,173 | 52,917 | 11,834 | (35,733) | 55,191 |
| Interest and other (expense) income, net | – | (14,100) | 2,274 | – | (11,826) |
| Income before income taxes | 26,173 | 38,817 | 14,108 | (35,733) | 43,365 |
| Income taxes | – | 12,644 | 4,548 | – | 17,192 |
| Net income | 26,173 | 26,173 | 9,560 | (35,733) | 26,173 |
| Preferred stock dividends | – | (82,105) | – | 82,105 | – |

| | | | | | |
|---|---|---|---|---|---|
| Net income (loss) attributable to common stockholders | $ 26,173 | $ (55,932) | $ 9,560 | $ 46,372 | $ 26,173 |

(1) The Subsidiary Issuer does not allocate integration expenses, corporate overhead or other expenses for shared services to the Guarantor Subsidiaries; therefore, the results for the Guarantor Subsidiaries do not reflect any such allocation.

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by operating activities | $ − | $ 42,316 | $ 746 | $ − | $ 43,062 |
| Cash Flows from Investing Activities: | | | | | |
| Purchase of property and equipment, net | − | (15,036) | − | − | (15,036) |
| Proceeds from sales and maturities of short-term investments | − | 100 | − | − | 100 |
| Purchase of businesses, net of cash acquired | − | (9,695) | − | − | (9,695) |
| Dividends received from subsidiary issuer | 11,108 | − | − | (11,108) | − |
| Other | − | 775 | − | (775) | − |
| Net cash used in investing activities | 11,108 | (23,856) | − | (11,883) | (24,631) |
| Cash Flows from Financing Activities: | | | | | |
| Increase in purchase card payable, net | − | 3,341 | − | − | 3,341 |
| Repayment of debt and capital lease obligations | − | (13,825) | − | − | (13,825) |
| Proceeds from stock options exercised | − | 641 | − | − | 641 |
| Purchases of treasury stock | (11,108) | − | − | − | (11,108) |
| Dividends paid to parent company | − | (11,108) | − | 11,108 | − |
| Other | − | 824 | (775) | 775 | 824 |
| Net cash used in financing activities | (11,108) | (20,127) | (775) | 11,883 | (20,127) |
| Effect of exchange rate changes on cash and cash equivalents | − | (157) | − | − | (157) |
| Net decrease cash and cash equivalents | − | (1,824) | (29) | − | (1,853) |
| Cash and cash equivalents at beginning of period | − | 86,919 | 62 | − | 86,981 |
| Cash and cash equivalents at end of period | $ − | $ 85,095 | $ 33 | $ − | $ 85,128 |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED SEPTEMBER 24, 2010**
**(in thousands)**

| | Parent Company (Guarantor) | Subsidiary Issuer | Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities | $ – | $ 12,602 | $ (153) | $ – | $ 12,449 |
| Cash Flows from Investing Activities: | | | | | |
| Purchase of property and equipment, net | – | (12,937) | – | – | (12,937) |
| Purchase of short-term investments | – | (3,002) | – | – | (3,002) |
| Proceeds from sales and maturities of short-term investments | – | 4,012 | – | – | 4,012 |
| Purchase of businesses, net of cash acquired | – | (145) | – | – | (145) |
| Other | – | (182) | – | 182 | – |
| Net cash used in investing activities | – | (12,254) | – | 182 | (12,072) |
| Cash Flows from Financing Activities: | | | | | |
| (Decrease) in purchase card payable, net | – | (1,463) | – | – | (1,463) |
| Repayment of debt and capital lease obligations | – | (1,788) | – | – | (1,788) |
| Proceeds from stock options exercised | – | 7,211 | – | – | 7,211 |
| Purchases of treasury stock | – | (97) | – | – | (97) |
| Other | – | 775 | 182 | (182) | 775 |
| Net cash provided by financing activities | – | 4,638 | 182 | (182) | 4,638 |
| Effect of exchange rate changes on cash and cash equivalents | – | 66 | – | – | 66 |
| Net increase in cash and cash equivalents | – | 5,052 | 29 | – | 5,081 |
| Cash and cash equivalents at beginning of period | – | 99,170 | 53 | – | 99,223 |
| Cash and cash equivalents at end of period | $ – | $104,222 | $ 82 | $ – | $ 104,304 |

| CONTINGENCIES | 9 Months Ended Sep. 30, 2011 |
|---|---|

**CONTINGENCIES**

CONTINGENCIES

**8. CONTINGENCIES**

*Contingent Liabilities*

As of September 30, 2011 and December 31, 2010, the Company was contingently liable for outstanding letters of credit aggregating to $7.0 million and $7.9 million, respectively.

*Legal Proceedings*

The Company has been named as a defendant in an action filed before the Nineteenth Judicial Circuit Court of Lake County, Illinois, which was subsequently removed to the United States District Court for the Northern District of Illinois. The complaint alleges that the Company sent thousands of unsolicited fax advertisements to businesses nationwide in violation of the Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005 ("TCPA"). At the time of filing the complaint, the plaintiff also filed a motion asking the Court to certify a class of plaintiffs comprised of businesses who allegedly received unsolicited fax advertisements from the Company. Other reported TCPA claims have resulted in a broad range of outcomes, with each case being dependent on its own unique set of facts and circumstances. Accordingly, we cannot reasonably estimate the amount of loss, if any, arising from this matter. The Company is vigorously contesting class action certification and liability, and will continue to evaluate its defenses based upon its internal review and investigation of prior events, new information, and future circumstances.

The Company is involved in various other legal proceedings in the ordinary course of its business that are not anticipated to have a material effect on the Company' s results of operations or financial position.

**DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

**9 Months Ended**

**Sep. 30, 2011**

**DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION**

DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

## 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

*Business*

Interline Brands, Inc., a Delaware corporation, and its subsidiaries ("Interline" or the "Company") is a leading national distributor and direct marketer of maintenance, repair and operations ("MRO") products. The Company sells plumbing, electrical, hardware, security, heating, ventilation and air conditioning ("HVAC"), janitorial and sanitation ("JanSan") supplies and other MRO products. Interline' s highly diverse customer base consists of multi-family housing, educational, lodging, government and healthcare facilities, professional contractors and specialty distributors.

The Company markets and sells its products primarily through fourteen distinct and targeted brands. The Company utilizes a variety of sales channels, including a direct sales force, telesales representatives, a direct marketing program consisting of catalogs and promotional flyers, brand-specific websites and a national accounts sales program. The Company delivers its products through its network of distribution centers and professional contractor showrooms located throughout the United States, Canada and Puerto Rico, vendor managed inventory locations at large professional contractor customer locations and its dedicated fleet of trucks. Through its broad distribution network, the Company is able to provide next-day delivery service to approximately 98% of the U.S. population and same-day delivery service to most major metropolitan markets in the U.S.

Interline Brands, Inc. is the holding company of the Interline group of businesses, including its principal operating subsidiary, Interline Brands, Inc., a New Jersey corporation ("Interline New Jersey").

*Basis of Presentation*

The accompanying unaudited interim condensed consolidated financial statements of Interline have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and instructions to the Quarterly Report on Form 10-Q and Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures normally included in financial statements included in the Company' s Annual Report on Form 10-K have been condensed or omitted. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company' s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the SEC.

All adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented have been recorded. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

The preparation of condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include valuation reserves for accounts receivable and income taxes, lower of cost or market and obsolescence reserves for inventory, reserves for self-insurance programs and valuation of goodwill and other intangible assets. Actual results could differ from those estimates.

*Fair Value of Financial Instruments*

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Disclosure about how fair value is determined for assets and liabilities is based on a hierarchy established from the significant levels of inputs as follows:

**Level 1** quoted prices in active markets for identical assets or liabilities;
**Level 2** quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or
**Level 3** unobservable inputs, such as discounted cash flow models or valuations.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The fair value of cash and cash equivalents, accounts receivable, and accounts payable approximate the carrying amount because of the short maturities of these items.

The Company had no short-term investments as of September 30, 2011. As of December 31, 2010, the Company' s short-term investments, which were classified as available-for-sale, were comprised of pre-refunded municipal bonds. Pre-refunded municipal bonds are bonds that are refinanced by the issuer and remain outstanding in the marketplace until a specific call date or maturity date is reached. Pre-refunded municipal bonds are secured by U.S. Treasury securities placed in an irrevocable escrow account. As of December 31, 2010, both the carrying amount and fair value of the Company' s short-term investments were $0.1 million. The fair value of the pre-refunded municipal bonds was estimated using Level 1 inputs and was determined by quoted market prices as they were publicly traded.

The following table shows the carrying amount and the fair value of the Company' s senior subordinated notes as of September 30, 2011 and December 31, 2010 (in thousands):

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| **Description** | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Senior subordinated notes (1) | $300,000 | $293,250 | $300,000 | $304,500 |

(1) Fair value estimated using Level 1 inputs. The fair value of the Company' s senior subordinated notes is determined by quoted market prices as they are publicly traded.

*Segment Information*

The Company has one operating segment and, therefore, one reportable segment, the distribution of MRO products. The Company' s revenues and assets outside the United States are not significant. The Company' s net sales by product category were as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| **Product Category (1)** | **September 30, 2011** | **September 24, 2010** | **September 30, 2011** | **September 24, 2010** |
| Janitorial and sanitation | $ 121,618 | $ 75,868 | $ 349,148 | $ 219,009 |
| Plumbing | 69,704 | 65,186 | 208,061 | 196,382 |
| Heating, ventilation and air conditioning | 35,300 | 34,429 | 92,584 | 92,144 |

| | | | | |
|---|---|---|---|---|
| Electrical and lighting | 30,798 | 29,845 | 90,609 | 87,466 |
| Appliances and parts | 19,839 | 18,176 | 56,350 | 52,241 |
| Security and safety | 17,774 | 17,159 | 49,446 | 46,715 |
| Hardware, tools and fixtures | 15,765 | 15,504 | 46,243 | 44,924 |
| Other | 20,551 | 20,654 | 54,004 | 53,312 |
| Total | $ 331,349 | $ 276,821 | $ 946,445 | $ 792,193 |

(1) During 2010, the Company implemented a new product information management system. In conjunction with this implementation, the Company went through and is completing its robust product identification process and, as a result, stock keeping units are realigned within product categories. Therefore, the prior periods in this table have been recast to be consistent with current presentation.

*Recently Issued Accounting Standards*

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* ("ASU 2011-04"). The amendments in ASU 2011-04 will provide clarification of certain fair value concepts such as principal market determination; valuation premise and highest and best use; measuring fair value of instruments with offsetting market or counterparty credit risks; blockage factor and other premiums and discounts; and liabilities and instruments classified in shareholders' equity. In addition, the pronouncement will provide guidance for new disclosures such as transfers between Level 1 and Level 2 of the fair value hierarchy; Level 3 fair value measurements; an entity' s use of an asset when it is different from its highest and best use; and fair value hierarchy disclosures for financial instruments not measured at fair value but disclosed. This pronouncement is effective for reporting periods beginning after December 15, 2011, with early adoption prohibited. The new guidance will require prospective application. We believe the adoption of this guidance will primarily affect certain disclosures related to fair value and will not have a material impact on the Company' s financial position, results of operations or cash flows.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). This pronouncement will bring consistency to the way reporting entities disclose comprehensive income in their consolidated financial statements and related notes. ASU 2011-05 will no longer permit disclosure of comprehensive income in either the statement of shareholders' equity or in a note to the consolidated financial statements. Instead, reporting entities will have two options for presenting comprehensive income. The first option presents comprehensive income in a single statement, which includes two components: net income and other comprehensive income. The second option allows the presentation of comprehensive income in two separate but consecutive statements: one for net income and the other for other comprehensive income. This pronouncement is effective for reporting periods beginning after December 15, 2011, with early adoption permitted. The new guidance will require retrospective application. Because this ASU impacts presentation only, adoption will not have an impact on the Company' s financial condition, results of operations or cash flows.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles − Goodwill and Other (Topic 350)* ("ASU 2011-08"). The amendments in ASU 2011-08 are intended to simplify how entities test goodwill for impairment. The amendments will permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Because this guidance only enhances the steps performed to determine whether a potential impairment exists (but should not impact the resulting conclusion), the adoption will not have an impact on the Company' s financial condition, results of operations, or cash flows.

**RESTRUCTURING AND ACQUISITION ACCRUALS**

**9 Months Ended**

**Sep. 30, 2011**

**RESTRUCTURING AND ACQUISITION ACCRUALS**

RESTRUCTURING AND ACQUISITION ACCRUALS

**4. RESTRUCTURING AND ACQUISITION ACCRUALS**

*Restructuring Accruals*

Since 2008, the Company has undertaken certain significant changes in its cost structure. These operational initiatives focus on reducing the Company' s overall operating cost structure. The following table summarizes the changes to related accruals, which are included in accrued expenses and other current liabilities, during the nine months ended September 30, 2011 (in thousands):

| | Facility Closing and Other Costs |
|---|---|
| Balance at December 31, 2010 | $ 475 |
| Payments | (266) |
| Adjustments (1) | (76) |
| Balance at September 30, 2011 | $ 133 |

(1) Adjustments reflect a change in estimate of remaining liabilities for facility closing and other costs.

Facility closing and other costs include lease tails, property and equipment disposals and other shut-down expenses associated with distribution center and professional contractor showroom consolidations.

*Acquisition Accruals*

The following table summarizes the accruals assumed in connection with the Company' s business combinations, which are included in accrued expenses and other current liabilities (in thousands):

| | Employee Severance and Relocation | Facility Closing and Other Costs | Total |
|---|---|---|---|
| Balance at December 31, 2010 | $ 44 | $ 917 | $ 961 |
| Payments | − | (116) | (116) |
| Write-offs | − | (269) | (269) |
| Balance at September 30, 2011 | $ 44 | $ 532 | $ 576 |

EARNINGS PER SHARE

9 Months Ended
Sep. 30, 2011

EARNINGS PER SHARE

EARNINGS PER SHARE

**5. EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income by the weighted-average number of shares of common stock and participating securities outstanding during the period. Participating securities are unvested share-based payment awards that contain rights to receive non-forfeitable dividends (whether paid or unpaid), such as deferred stock units. The impact of participating securities on the calculation is insignificant.

Diluted earnings per share is computed by dividing net income by the weighted-average number of shares of common stock and participating securities outstanding during the period as adjusted for the potential dilutive effect of stock options and non-vested shares of restricted stock and restricted share units using the treasury stock method.

The following summarizes the shares of common stock used to calculate earnings per share including the potentially dilutive impact of stock options, restricted stock and restricted share units, calculated using the treasury stock method, as included in the calculation of diluted weighted-average shares:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 24, 2010 | September 30, 2011 | September 24, 2010 |
| Weighted average shares outstanding - basic | 33,271,753 | 33,084,756 | 33,359,746 | 32,931,814 |
| Dilutive shares resulting from: | | | | |
| Stock options | 242,269 | 315,464 | 365,139 | 371,721 |
| Restricted stock | 590 | 437 | 196 | 813 |
| Restricted share units | 345,405 | 395,958 | 320,915 | 381,304 |
| Weighted average shares outstanding - diluted | 33,860,017 | 33,796,615 | 34,045,996 | 33,685,652 |

During the three months ended September 30, 2011 and September 24, 2010, stock options to purchase 1,975,775 shares and 1,849,705 shares of common stock, respectively, were excluded from the computations of diluted weighted-average shares outstanding because their effect would be anti-dilutive. During the nine months ended September 30, 2011 and September 24, 2010, stock options to purchase 2,109,751 shares and 1,910,550 shares of common stock, respectively, were excluded from the computations of diluted weighted-average shares outstanding because their effect would be anti-dilutive.

| COMPREHENSIVE INCOME | 9 Months Ended Sep. 30, 2011 |
|---|---|
| **COMPREHENSIVE INCOME** | |
| COMPREHENSIVE INCOME | |

6. **COMPREHENSIVE INCOME**

Comprehensive income refers to net income plus revenues, expenses, gains and losses that are recorded directly as an adjustment to stockholders' equity, net of tax, including changes in employee benefit plan obligations and foreign currency translation. The components of comprehensive income for the three and nine months ended September 30, 2011 and September 24, 2010 are as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2011 | September 24, 2010 | September 30, 2011 | September 24, 2010 |
| Net income | $ 12,382 | $ 11,512 | $ 29,121 | $ 26,173 |
| Other comprehensive (loss) income: | | | | |
| Amortization of unrecognized (loss)/gain on employee benefits | (3) | 5 | (2) | 13 |
| Foreign currency translation | (621) | 68 | (393) | 152 |
| Total comprehensive income | $ 11,758 | $ 11,585 | $ 28,726 | $ 26,338 |

| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Parenthetical) | Sep. 30, 2011 | Sep. 24, 2010 |
|---|---|---|
| **CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS** | | |
| Effective interest rate of 8 1/8% (as a percent) | 8.125% | 8.125% |

| ACQUISITIONS | 9 Months Ended Sep. 30, 2011 |
|---|---|

**ACQUISITIONS**

ACQUISITIONS

**2. ACQUISITIONS**

On January 28, 2011, Interline New Jersey acquired substantially all of the assets and a portion of the liabilities of Northern Colorado Paper, Inc. (“NCP”) for $9.6 million in cash and an earn-out of up to $0.3 million in cash over two years. NCP, which is headquartered in Greeley, Colorado, is a regional distributor of JanSan supplies, primarily servicing institutional facilities in the healthcare, education and food service industries. This acquisition represents an expansion of the Company’ s offering of JanSan products in the western United States.

On October 29, 2010, Interline New Jersey acquired substantially all of the assets and a portion of the liabilities of CleanSource, Inc. (“CleanSource”) for $54.6 million in cash and an earn-out of up to $5.5 million in cash over two years. CleanSource, which is headquartered in San Jose, California, is a large regional distributor of JanSan supplies. CleanSource offers over 4,000 products and primarily serves institutional facilities in the healthcare and education markets, as well as building services contractors. This acquisition represents a geographical expansion of the Company’ s offering of JanSan products to the West Coast of the United States.

As of September 30, 2011, the fair value of the earn-outs associated with the acquisitions of CleanSource and NCP was $4.0 million and $0.3 million, respectively. Since the dates of acquisition, there have been no changes in the range of outcomes assumed when valuing these contingent liabilities.

| Document and Entity Information | 9 Months Ended Sep. 30, 2011 | Nov. 03, 2011 |
|---|---|---|
| **Document and Entity Information** | | |
| Entity Registrant Name | INTERLINE BRANDS, INC./DE | |
| Entity Central Index Key | 0001292900 | |
| Document Type | 10-Q | |
| Document Period End Date | Sep. 30, 2011 | |
| Amendment Flag | false | |
| Current Fiscal Year End Date | --12-30 | |
| Entity Current Reporting Status | Yes | |
| Entity Filer Category | Accelerated Filer | |
| Entity Common Stock, Shares Outstanding | | 32,084,503 |
| Document Fiscal Year Focus | 2011 | |
| Document Fiscal Period Focus | Q3 | |

| CONDENSED CONSOLIDATED BALANCE SHEETS (Parenthetical) (USD $) In Thousands, except Share data | Sep. 30, 2011 | Dec. 31, 2010 |
|---|---|---|
| CONDENSED CONSOLIDATED BALANCE SHEETS | | |
| Accounts receivable - trade, allowance for doubtful accounts (in dollars) | $ 7,310 | $ 9,088 |
| Senior preferred stock, par value (in dollars per share) | $ 0.01 | $ 0.01 |
| Senior preferred stock, shares authorized | 20,000,000 | 20,000,000 |
| Senior preferred stock, shares outstanding | 0 | 0 |
| Common stock, par value (in dollars per share) | $ 0.01 | $ 0.01 |
| Common stock, shares authorized | 100,000,000 | 100,000,000 |
| Common stock, shares issued | 33,529,227 | 33,336,373 |
| Common stock, shares outstanding | 32,554,823 | 33,214,073 |
| Treasury stock, shares | 974,404 | 122,300 |