WESCO INTERNATIONAL INC
Form 10-Q
May 10, 2007

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

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

For the quarterly period ended March 31, 2007

or

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

FOR THE TRANSITION PERIOD from__________to __________

Commission file number 001-14989

WESCO International, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**25-1723342**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
225 West Station Square Drive Suite 700 Pittsburgh, Pennsylvania 15219	**(412) 454-2200**
(Address of principal executive offices)	(Registrant s telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

As of May 8, 2007, WESCO International, Inc. had 45,602,703 shares common stock outstanding.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

Amounts in thousands, except share data	March 31, 2007	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 55,369	$ 73,395
Trade accounts receivable, net of allowance for doubtful accounts of $17,861 and $12,641 in 2007 and 2006, respectively **(Note 5)**	865,699	829,962
Other accounts receivable	42,351	43,011
Inventories, net	606,117	613,569
Current deferred income taxes	17,721	14,991
Income taxes receivable	21,454	34,016
Prepaid expenses and other current assets	8,808	9,068
Total current assets	1,617,519	1,618,012
Property, buildings and equipment, net	104,715	107,016
Intangible assets, net **(Note 6)**	144,007	147,550
Goodwill **(Note 6)**	902,540	931,229
Other assets	19,482	20,176
Total assets	$ 2,788,263	$ 2,823,983
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 646,551	$ 590,304
Accrued payroll and benefit costs	41,192	69,945
Short-term debt	465,000	390,500
Current portion of long-term debt	2,611	5,927
Deferred acquisition payable	1,333	3,453
Bank overdrafts	23,744	27,833
Other current liabilities	63,154	65,710
Total current liabilities	1,243,585	1,153,672
Long-term debt	777,238	743,887
Other noncurrent liabilities	26,387	13,520
Deferred income taxes	117,860	149,677
Total liabilities	$ 2,165,070	$ 2,060,756

Commitments and contingencies **(Note 8)**		
Stockholders Equity:		
Preferred stock, $.01 par value; 20,000,000 shares authorized, no shares issued or outstanding		
Common stock, $.01 par value; 210,000,000 shares authorized, 54,522,611 and 53,789,918 shares issued and 47,158,033 and 49,545,506 shares outstanding in 2007 and 2006, respectively	545	538
Class B nonvoting convertible common stock, $.01 par value; 20,000,000 shares authorized, 4,339,431 issued in 2007 and 2006; no shares outstanding in 2007 and 2006	43	43
Additional capital	793,614	769,948
Retained earnings	92,320	48,988
Treasury stock, at cost; 11,704,009 and 8,583,843 shares in 2007 and 2006, respectively	(277,862)	(70,820)
Accumulated other comprehensive income	14,533	14,530
Total stockholders equity	623,193	763,227
Total liabilities and stockholders equity	$ 2,788,263	$ 2,823,983

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

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

	Three Months Ended March 31,	
Dollars in thousands, except share data	**2007**	**2006**
Net sales	$ 1,450,556	$ 1,265,508
Cost of goods sold (excluding depreciation and amortization below)	1,151,533	1,012,403
Gross profit	299,023	253,105
Selling, general and administrative expenses	207,558	169,898
Depreciation and amortization	8,930	6,282
Income from operations	82,535	76,925
Interest expense, net	12,220	6,393
Other expenses **(Note 5)**		5,059
Income before income taxes	70,315	65,473
Provision for income taxes	22,157	21,023
Net income	$ 48,158	$ 44,450
Earnings per share:		
Basic:	$ 0.98	$ 0.93
Diluted:	$ 0.93	$ 0.86

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

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

Amounts in thousands	**2007**	**2006**
Operating Activities:		
Net income	$ 48,158	$ 44,450
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,930	6,282
Amortization of debt issuance costs	969	552
Deferred income taxes	(1,453)	1,762
Stock-based compensation expense	3,268	2,568
Loss (gain) on the sale of property, buildings and equipment	(149)	21
Excess tax benefit from stock-based compensation **(Note 3)**	(14,919)	(8,126)
Changes in assets and liabilities		
Change in receivables facility		(2,000)
Trade and other receivables, net	(34,640)	(17,319)
Inventories, net	7,770	(6,943)
Prepaid expenses and other current assets	27,741	13,336
Accounts payable	55,898	3,482
Accrued payroll and benefit costs	(28,753)	(16,402)
Other current and noncurrent liabilities	2,981	10,857
Net cash provided by operating activities	75,801	32,520
Investing Activities:		
Capital expenditures	(2,848)	(4,206)
Acquisition payments	(3,553)	(1,013)
Net cash used by investing activities	(6,401)	(5,219)
Financing Activities:		
Proceeds from issuance of long-term debt	332,000	137,904
Repayments of long-term debt	(227,656)	(167,228)
Debt issuance costs	(287)	(532)
Proceeds from the exercise of stock options	5,493	960
Excess tax benefit from stock-based compensation **(Note 3)**	14,919	8,126
Repurchase of common stock	(207,229)	
(Decrease) increase in bank overdrafts	(4,089)	1,903
Payments on capital lease obligations	(407)	(209)
Net cash used by financing activities	(87,256)	(19,076)
Effect of exchange rate changes on cash and cash equivalents	(170)	
Net change in cash and cash equivalents	(18,026)	8,225
Cash and cash equivalents at the beginning of period	73,395	22,125
Cash and cash equivalents at the end of period	$ 55,369	$ 30,350

Supplemental disclosures:		
Non-cash investing and financing activities:		
Property, plant and equipment acquired through capital leases	598	644
Increase in deferred acquisition payable		5,500
Issuance of treasury stock	187	

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION

WESCO International, Inc. and its subsidiaries (collectively, WESCO or the Company), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical supplies and equipment and is a provider of integrated supply procurement services with operations in the United States, Canada, Mexico, Guam, the United Kingdom, Nigeria, United Arab Emirates and Singapore. WESCO currently operates approximately 400 branch locations and seven distribution centers (five in the United States and two in Canada.)

2. ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements of WESCO have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the SEC). The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in WESCO s 2006 Annual Report on Form 10-K filed with the SEC. The December 31, 2006 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated balance sheet as of March 31, 2007, the unaudited condensed consolidated statements of income for the three months ended March 31, 2007 and 2006, respectively, and the unaudited condensed consolidated statements of cash flows for the three months ended March 31, 2007 and 2006, respectively, in the opinion of management, have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair statement of the results of the interim periods. All adjustments reflected in the unaudited condensed consolidated financial statements are of a normal recurring nature unless indicated. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board (the FASB) issued SFAS No. 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140* (SFAS 156) which amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This statement clarifies when servicing rights should be separately accounted for, requires companies to account for separately recognized servicing rights initially at fair value, and gives companies the option of subsequently accounting for those servicing rights at either fair value or under the amortization method. SFAS 156 is effective for fiscal years beginning after September 15, 2006. Consistent with its requirements, WESCO adopted SFAS 156 on January 1, 2007. The adoption of SFAS 156 did not impact WESCO s financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. WESCO is currently evaluating the effect that implementation of SFAS 157 will have on its financial position, results of operations, and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159) which provides companies with an option to report certain financial assets and liabilities at fair value, with changes in value recognized in earnings each reporting period. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. WESCO is currently evaluating the impact that adoption of SFAS 159 will have on its financial position, results of operations, and cash flows.

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3. STOCK-BASED COMPENSATION

WESCO s stock-based employee compensation plans are comprised of fixed stock options and stock-settled stock appreciation rights. Beginning January 1, 2006, WESCO adopted SFAS No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, using the modified prospective method. Under SFAS 123R, compensation cost for all stock-based awards is measured at fair value on date of grant and compensation cost is recognized, net of estimated forfeitures, over the service period for awards expected to vest. The fair value of stock-based awards is determined using the Black-Scholes valuation model. The forfeiture assumption is based on WESCO s historical employee behavior that is reviewed on an annual basis. No dividends are assumed.

There were no stock-settled stock appreciation rights granted during the three months ended March 31, 2007. During the three months ended March 31, 2006, WESCO granted the following stock-settled stock appreciation rights at the following weighted average assumptions:

	Three Months Ended March 31, 2006
Stock-settled appreciations rights granted	3,482
Risk free interest rate	4.2%
Expected life	4 years
Expected volatility	57%

For the three months ended March 31, 2006, the weighted average fair value per equity award granted was $25.08.

WESCO recognized $3.3 million and $2.6 million (including $0.1 million due to the adoption of SFAS 123R) of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended March 31, 2007 and 2006, respectively. As of March 31, 2007, there was $17.3 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made of which approximately $8.6 million is expected to be recognized over the remainder of 2007, $6.5 million in 2008 and $2.2 million in 2009.

During the three months ended March 31, 2007 and 2006, the total intrinsic value of options exercised was $42.7 million and $24.5 million, respectively. For both three-month periods, the total amount of cash received from the exercise of these options was $5.5 million. The tax benefit recorded for tax deductions associated with stock-based compensation plans for the three months ended March 31, 2007 and 2006 totaled $14.9 million and $8.3 million, respectively, and was recorded as a credit to additional paid-in capital.

The following table sets forth a summary of both stock options and stock appreciation rights and related information for the three months ended March 31, 2007:

	Awards	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (In Years)**	**Aggregate Intrinsic Value (In Thousands)**
Outstanding at December 31, 2006	4,578,822	$ 20.78		
Granted				
Exercised	743,058	$ 8.21		
Forfeited				
Outstanding at March 31, 2007	3,835,764	$ 23.21	5.9	$ 89,038
Exercisable at March 31, 2007	1,590,598	$ 13.55	6.1	$ 21,556

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4. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average common shares outstanding during the periods. Diluted earnings per share are computed by dividing net income by the weighted average common shares and common share equivalents outstanding during the periods. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method, which includes consideration of stock-based compensation required by SFAS No. 123 (R) and SFAS No. 128, *Earnings Per Share*.

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

	Three Months Ended March 31,	
Amounts in thousands, except per share amounts	**2007**	**2006**
Net income reported	$ 48,158	$ 44,450
Weighted average common shares outstanding used in computing basic earnings per share	48,901,184	48,031,287
Common shares issuable upon exercise of dilutive stock options	1,893,300	2,636,644
Common shares issuable from contingently convertible debentures (see note below for basis of calculation)	1,212,411	825,286
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	52,006,895	51,493,217
Earnings per share:		
Basic	$ 0.98	$ 0.93
Diluted	$ 0.93	$ 0.86

Stock-settled stock appreciation rights of 0.1 million and 0.9 million at a weighted average exercise price of $68.87 and $24.02 per share were outstanding as of March 31, 2007 and 2006, respectively, were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the three-month periods ending March 31, 2007 and 2006.

Under EITF Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*, and EITF Issue No. 90-1*9, Convertible Bonds with Issuer Option to Settle for Cash upon Conversion* , and because of WESCO s obligation to settle the par value of the 2.625% Convertible Senior Debenutres due 2025 Debentures (the 2025 Debentures) and the 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures and collectively with the 2025 Debentures, the Debentures) in cash, WESCO is not required to include any shares underlying the Debentures in its diluted weighted average shares outstanding until the average stock price per share for a fiscal quarter exceeds the conversion price of the respective Debentures. At such time, only the number of shares that would be issuable (under the treasury method of accounting for share dilution) would be included, which is based upon the amount by which the average stock exceeds the conversion price. The conversion prices of the 2026 Debentures and 2025 Debentures are $88.15 and $41.86, respectively. Share dilution is limited to a maximum of 3,403,110 shares for the 2026 Debentures and 3,583,080 shares for the 2025 Debentures. Since the average stock prices for the three-month periods ended March 31, 2007 and 2006 were approximately $63 and $54 per share, respectively, 1,212,411 shares and 825,286 shares, respectively, underlying the 2025 Debentures were included in the diluted share count. For each of the three-month periods ended March 31, 2007, and 2006, the effect of the 2025 Debentures on diluted earnings per share was a decrease of $0.02.

5. ACCOUNTS RECEIVABLE SECURITIZATION

WESCO maintains an accounts receivable securitization program (the Receivables Facility) under which it sells, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corporation, a wholly owned, special purpose entity (SPE). The SPE sells, without recourse, a senior undivided interest in the receivables to third-party conduits and financial institutions for cash while maintaining a subordinated undivided interest in a portion of the receivables, in the form of overcollateralization. WESCO has agreed to continue servicing the sold receivables for the third-party conduits and financial institutions at market rates; accordingly, no servicing asset or liability has been recorded.

On February 22, 2007, WESCO amended the Receivables Facility. The amendment increases the purchase commitment under the Receivables Facility from $400 million to $500 million, includes Communications Supply Corporation and its subsidiaries as originators under the Receivables Facility, and extends the term of the Receivables Facility to May 9, 2010.

Prior to December 2006, WESCO accounted for transfers of receivables pursuant to the Receivables Facility as a sale and removed them from the consolidated balance sheet. In December 2006, the Receivables Facility was amended and restated such that WESCO effectively maintains control of receivables transferred pursuant to the Receivables Facility; therefore the transfers no longer qualify for sale treatment under SFAS No. 140. As a result, all transfers are accounted for as secured borrowings and the receivables sold pursuant to the Receivables Facility are included on the balance sheet as trade receivables, along with WESCO s retained subordinated undivided interest in those receivables.

As of March 31, 2007 and December 31, 2006, accounts receivable eligible for securitization totaled approximately $597.6 million and $531.3 million, respectively. The consolidated balance sheets as of March 31, 2007 and December 31, 2006 reflect $440.0 million and $390.5 million, respectively, of account receivable balances legally sold to third parties, as well as the related borrowings for equal amounts.

Effective with the amendment in December 2006, WESCO re-gained control of previously transferred accounts receivable balances. EITF 02-09, *Accounting for Changes that Result in a Transferor Regaining Control of Financial Assets Sold,* requires that re-recognized assets be recorded at fair value. Accordingly, WESCO reflected re-recognized trade receivables with an estimated fair value of $390.5 million in the balance sheet at December 31, 2006, along with the retained subordinated undivided interest of $137.9 million. As a result of this change in accounting treatment, WESCO recognized a pre-tax gain of $2.4 million during the three months ended March 31, 2007.

Interest expense and other costs associated with the Receivables Facility totaled $6.2 million for the three-months ended March 31, 2007. Prior to the amendment and restatement, interest expense and other costs related to the Receivables Facility were recorded as other expense in the consolidated statement of income. As of March 31, 2006, these costs totaled $5.1 million. At March 31, 2007, the interest rate on borrowings under this facility was approximately 6.0%.

6. ACQUISITIONS

Acquisitions were accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*. Accordingly, the purchase price has been allocated based on an independent appraisal of the fair value of intangible assets and management s estimate of the fair value of tangible assets acquired and liabilities assumed with the excess being recorded primarily as goodwill as of the effective date of the acquisition.

Acquisition of Communications Supply Holdings, Inc.

On November 3, 2006, WESCO International completed its acquisition of Communications Supply Holdings, Inc. (Communications Supply). On that day, a wholly-owned subsidiary of WESCO Distribution, Inc. (WESCO Distribution) merged with and into Communications Supply, which became a wholly-owned subsidiary of WESCO Distribution. WESCO paid at closing a cash merger price of approximately $530.1 million, net of $5.0 million of cash acquired and $1.1 million of deferred payments, of which $17 million is held in escrow to address post-closing adjustments relating to working capital and potential indemnification claims, with all amounts in escrow to be eligible for release after January 31, 2008. To fund the merger price paid at closing, WESCO Distribution borrowed $105.0 million under its Receivables Facility and $102.0 million under its revolving credit facility and used the borrowings, together with the $292.5 million of net proceeds from the offering of the 2026 Debentures and approximately $30.6 million of other available cash. During the three months ended March 31, 2007, WESCO completed its evaluation of the calculation of the acquired working capital, along with the calculation of various direct acquisition costs. These calculations resulted in an increase to the purchase price in the amount of approximately $2.5 million. During the three months ended March 31, 2007, WESCO made payments totaling $2.9 million, which included purchase price adjustments totaling $2.5 million and a deferred payment of $0.4 million to the previous owners of Communications Supply.

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The preliminary allocation of assets acquired and liabilities assumed for the 2006 acquisition is summarized below. The allocation is subject to change pending a final analysis of the direct costs related to the acquisition.

Amounts in thousands		**Communications Supply Holdings, Inc. (Preliminary)**
Assets Acquired		
Cash and equivalents	$	5,039
Trade accounts receivable		102,582
Inventories		84,868
Deferred income taxes short-term		7,199
Other accounts receivable		8,286
Prepaid expenses		1,491
Income taxes receivable		15,925
Property, buildings and equipment		5,493
Intangible assets		71,295
Goodwill		352,284
Other noncurrent assets		849
Total assets acquired		655,311
Liabilities Assumed		
Accounts payable		45,241
Accrued and other current liabilities		37,592
Deferred acquisition payable		1,107
Deferred income taxes long-term		32,140
Other noncurrent liabilities		554
Total liabilities assumed		116,634
Fair value of net assets acquired, including intangible assets	$	538,677

Communications Supply is a national distributor of wire, cable, network infrastructure, and low voltage specialty system products for data, voice and security network communication applications. Communications Supply sells it products through its 31 branches and sales offices located throughout the United States. Communications Supply also adds new product categories, new supplier relationships and provides acquisition opportunities to penetrate further into the low voltage and data communications supply industry.

The preliminary purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. The fair value of the intangible assets was determined by an independent appraiser. The allocation resulted in intangible assets of $71.3 million and goodwill of $352.3 million, of which $11.7 million is deductible for tax purposes. The intangible assets include supplier relationships of $21.4 million amortized over a range of 12 to 19 years, customer relationships of $21.4 million amortized over a range of 4 to 7 years, non-compete agreements of $0.7 million amortized over 3 years, and trademarks of $27.8 million. Trademarks have an indefinite life and are not being amortized. No residual value is estimated for these intangible assets.

The operating results of Communications Supply have been included in WESCO s consolidated financial statements since November 3, 2006. Unaudited pro forma results of operations (in thousands, except per share data) for the three months ended March 31, 2006 is included below as if the acquisition occurred on the first day of the period. This summary of the unaudited pro forma results of operations is not necessarily indicative of what WESCO s results of operations would have been had Communications Supply been acquired at the beginning of 2006, nor does it purport to represent results of operations for any future periods. Seasonality of sales is not a significant factor to these pro forma combined results of operations.

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(In thousands, except per share amounts)	Three Months Ended March 31, 2006
Net sales	$ 1,384,216
Net income	$ 44,903
Earnings per common share:	
Basic	$ 0.93
Diluted	$ 0.87

Acquisition of Carlton-Bates Company

On September 29, 2005, WESCO acquired Carlton-Bates Company (Carlton-Bates), headquartered in Little Rock, Arkansas. As part of the acquisition, WESCO developed a plan for the integration of Carlton-Bates into the WESCO operations. This plan was finalized during the three-month period ended September 30, 2006. Pursuant to EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* , certain charges related to the Carlton-Bates acquisition integration were recognized as a part of the purchase price allocation. A summary of these charges for the three months ending March 31, 2007 is as follows:

Amounts in thousands	Balance at December 31, 2006	Cash Payments	Balance at March 31, 2007
Termination Benefits	$ 24	$ 23	$ 1
Cost of closing redundant facilities	1,392	3	1,389
Other	104		104
Total	$ 1,520	$ 26	$ 1,494

Acquisition of Fastec Industrial Corp.

On July 29, 2005, WESCO acquired the assets and business of Fastec Industrial Corp. To consummate this acquisition, WESCO issued a $3.3 million promissory note. The note was paid in full in January 2007.

7. EMPLOYEE BENEFIT PLANS

A majority of WESCO s employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO s formation. For U.S. participants, WESCO will make contributions in an amount equal to 50% of the participant s total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO will make contributions in an amount ranging from 1% to 7% of the participant s eligible compensation based on years of continuous service. In addition, employer contributions may be made at the discretion of the Board of Directors. For the three months ended March 31, 2007, WESCO contributed $6.5 million to all such plans. Contributions are made in cash to employee retirement savings plan accounts. Employees then have the option to transfer balances allocated to their accounts into any of the available investment options, including WESCO stock.

8. COMMITMENTS AND CONTINGENCIES

WESCO was a defendant in a lawsuit in a state court in Florida in which a former supplier alleged that WESCO failed to fulfill its commercial obligations to purchase product. On March 8, 2007, WESCO and the plaintiff agreed to a complete settlement of the pending litigation. Under the terms of the settlement, the parties released all claims against each other in exchange for cash and other consideration. On March 19, 2007, as stipulated by the settlement agreement, the majority of the cash settlement amount was paid. The impact of this settlement, including professional fees, on WESCO s first quarter results of operations is $6.7 million ($4.7 million after tax).

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9. COMPREHENSIVE INCOME

The following table sets forth comprehensive income and its components:

	Three Months Ended March 31,	
Amounts in thousands	**2007**	**2006**
Net income	$ 48,158	$ 44,450
Foreign currency translation adjustment	3	(139)
Comprehensive income	$ 48,161	$ 44,311

10. STOCKHOLDERS EQUITY

On February 1, 2007, WESCO announced that its Board of Directors authorized a stock repurchase program in the amount of up to $400 million. The shares may be repurchased from time to time in the open market or through privately negotiated transactions. The stock repurchase program may be implemented or discontinued at any time by WESCO. During the three months ended March 31, 2007, WESCO repurchased approximately 3.0 million shares for $198.0 million.

In addition, during the three-months ended March 31, 2007, WESCO purchased over 0.1 million shares from employees for approximately $9.2 million in connection with the settlement of tax withholding obligations arising from the exercise of common stock units

11. INCOME TAXES

The following table sets forth the reconciliation between the federal statutory income tax rate and the effective rate: