WESCO INTERNATIONAL INC
Form 10-K
March 01, 2007

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

(Mark One)

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

For the fiscal year ended December 31, 2006

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)	(I.R.S. Employer Identification No.)
225 West Station Square Drive Suite 700 Pittsburgh, Pennsylvania	**15219**
(Address of principal executive offices)	(Zip Code)

(412) 454-2200

(Registrant s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Class	**Name of Exchange on which registered**
Common Stock, par value $.01 per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a 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 Act). Yes o No þ

The registrant estimates that the aggregate market value of the voting shares held by non-affiliates of the registrant was approximately $3,285.6 million as of June 30, 2006, the last business day of the registrant s most recently completed second fiscal quarter, based on the closing price on the New York Stock Exchange for such stock.

As of February 27, 2007, 48,864,640 shares of Common Stock, par value $.01 per share, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part II of this Form 10-K incorporates by reference certain information from the registrant s 2006 Annual Report to Shareholders (Annual Report). Part III of this Form 10-K incorporates by reference portions of the registrant s Proxy Statement for its 2007 Annual Meeting of Stockholders.

WESCO INTERNATIONAL, INC.
Annual Report on Form 10-K for the Fiscal Year Ended
December 31, 2006
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PART I

Item 1. Business.

In this Annual Report on Form 10-K, WESCO refers to WESCO International, Inc., and its subsidiaries and its predecessors unless the context otherwise requires. References to we, us, our and the Company refer to WESCO and its subsidiaries. Our subsidiaries include WESCO Distribution, Inc. (WESCO Distribution) and WESCO Distribution Canada, Co. (WESCO Canada), both of which are wholly owned by WESCO.

The Company

With sales of $5.3 billion in 2006, WESCO International, Inc., incorporated in 1993, is a leading North American provider of electrical construction products and electrical and industrial maintenance, repair and operating supplies, commonly referred to as MRO. We have more than 400 full service branches and seven distribution centers located in the United States, Canada, Mexico, Guam, the United Kingdom, Nigeria, United Arab Emirates and Singapore. We serve approximately 110,000 customers worldwide, offering more than 1,000,000 products from more than 29,000 suppliers utilizing a highly automated, proprietary electronic procurement and inventory replenishment system.. Our leading market positions, experienced workforce, extensive geographic reach, broad product and service offerings and acquisition program have enabled us to grow our market position.

Industry Overview

The electrical distribution industry serves customers in a number of markets including the industrial, electrical contractors, utility, commercial, residential, government and institutional markets. Electrical distributors provide logistical and technical services for customers along with a wide range of products typically required for the construction and maintenance of electrical supply networks, including wire, lighting, distribution and control equipment and a wide variety of electrical supplies. Many customers demand that distributors provide a broader and more complex package of services as they seek to outsource non-core functions and achieve cost savings in purchasing, inventory and supply chain management.

Electrical Distribution. According to *Electrical Wholesaling Magazine*, the U.S. electrical wholesale distribution industry had forecasted sales of approximately $84 billion in 2006. According to published sources, our industry has grown at an approximate 6% compounded annual rate over the past 20 years. This expansion has been driven by general economic growth, increased price levels for key commodities, increased use of electrical products in businesses and industries, new products and technologies and customers who are seeking to more efficiently purchase a broad range of products and services from a single supplier, thereby eliminating the costs and expenses of purchasing directly from manufacturers or multiple sources. The U.S. electrical distribution industry is highly fragmented. In 2005, the latest year for which market share data is available, the four national distributors, including us, accounted for approximately 20% of estimated total industry sales.

Integrated Supply. The market for integrated supply services has grown rapidly in recent years. Growth has been driven primarily by the desire of large industrial companies to reduce operating expenses by implementing comprehensive third-party programs, which outsource cost-intensive procurement, stocking and administrative functions associated with the purchase and consumption of MRO supplies. For some of our customers, we believe these costs can account for up to 35% of the total costs for MRO products and services. We believe that significant opportunities exist for further expansion of integrated supply services, as the total potential in the United States for purchases of industrial MRO supply and services through all channels is currently estimated to be approximately $400 billion.

Business Strategy

Our goal is to grow earnings at a faster rate than sales by continuing to focus on margin enhancement and continuous productivity improvement. Our growth strategy utilizes our existing strengths and focuses on developing new market segment initiatives and enhanced sales management programs to position us to grow at a faster rate than the industry.

Enhance Our Leadership Position in Electrical Distribution. We will continue to capitalize on our extensive market presence and brand equity in the WESCO name to grow our market position in electrical distribution. As a result of our extensive geographical coverage, effective information systems and value-added products and services, we believe we have become a leader in serving several important and growing markets. We are focusing our sales and marketing efforts in three primary areas:

- expanding our product and service offerings to existing customers in industries we currently serve;
- targeting new customers within vertical markets that provide significant growth opportunities; and
- providing new and existing customers compliance solutions to government regulations and safety concerns

Continue to Grow Our Premier Position in National Accounts. From 2003 through 2006, revenue from our national accounts program increased at a compound annual growth rate of approximately 14%. We plan to continue to invest in the expansion of this program. Through our national accounts program, we coordinate electrical and industrial MRO procurement and purchasing activities across multiple locations, primarily for large industrial and commercial companies and for electric utilities. We have preferred supplier relationships with more than 290 companies, providing us with a recurring base of revenue through multi-year agreements with these companies. Our objective is to continue to increase revenue from our national account customers by:

- offering existing national account customers new products and services, such as our integrated supply services and serving additional customer locations;
- expanding our customer base by capitalizing on our existing industry expertise and supply chain capabilities; and
- maintaining close coordination with multi-location contractor customers on their major project requirements.

Extend Our Leadership Position in Integrated Supply Services. We provide a full complement of outsourcing solutions, focusing on improving the supply chain management process for our customers indirect purchases. Our integrated supply programs replace the traditional multi-vendor, resource-intensive procurement process with a single, outsourced, fully automated process capable of managing all MRO and related service requirements. Our solutions range from timely product delivery to assuming full responsibility for the entire procurement function. Our customers include some of the largest industrial companies in the United States. We plan to expand our leadership position as the largest integrated supply services provider in the United States by building upon established relationships within our large customer base and premier supplier network, to meet customers continued interest in outsourcing.

Gain Share in Fragmented Local Markets. Significant opportunities exist to gain market share in highly fragmented local markets. We intend to increase our market share in key geographic markets through a combination of increased sales and marketing efforts at existing branches, acquisitions that expand our product and customer base and new branch openings.

Expand our LEAN Initiative. LEAN driven continuous improvement is a company-wide, strategic initiative to increase productivity across the entire enterprise, including sales, operations and administrative processes. The basic principles behind LEAN are to rapidly identify and implement improvements through simplification, elimination of waste and reducing errors throughout a defined process. WESCO has been highly successful in applying LEAN in a distribution environment, and has developed and deployed numerous initiatives through the Kaizen approach. The initiatives are primarily centered around our branch operations and target nine key areas: sales, pricing, warehouse operations, transportation, purchasing, inventory, accounts receivable, accounts payable and administrative processes. In 2007, our objective is to continue to implement the initiatives across our branch locations and headquarters operations, consistent with our long-term strategy of continuously refining and improving our processes to achieve both sales and operational excellence.

Pursue Strategic Acquisitions. Since 1995, we have completed and successfully integrated 28 acquisitions. Our most recent acquisition was completed in November 2006. We believe that the highly fragmented nature of the electrical and industrial MRO distribution industry will continue to provide us with acquisition opportunities. We expect that any future acquisitions will be financed with internally generated funds, additional debt and/or the issuance of equity securities. However, our ability to make acquisitions will be subject to our compliance with certain conditions under the terms of our revolving credit facility. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, for a further description of the revolving credit facility.

Expand Product and Service Offerings. We have developed a service capability to assist customers in improving their internal productivity and overall cost position. This service, which we call Cost Reduction Solutions, is based on applying LEAN principles and practices in our customers work environment. To date, we have worked with manufacturers, assemblers and contractors to enhance supply chain operations and logistics. Our work on productivity projects, in cooperation with our customers, significantly increases the breadth of products that can be supplied and creates fee-for-service opportunities in kitting, assembly and warehouse operations. Additionally, we have demonstrated our ability to introduce new products and services to meet existing customer demands and capitalize on new market opportunities.

Capitalize on Our Information System Capabilities. We intend to utilize our sophisticated information technology capabilities to drive increased sales performance and market share. Our information systems support targeted direct mail marketing campaigns, sales promotions, sales productivity and profitability assessments and coordination with suppliers and overall supply chain programs that improve customer profitability and enhance our working capital productivity. Our information systems provide us with detailed, actionable information across all facets of our broad network, allowing us to quickly and effectively identify and act on profitability and efficiency-related initiatives.

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Expand Our International Operations. Our international sales, the majority of which are in Canada, accounted for approximately 13% of total sales in 2006. We believe that there is significant additional demand for our products and services outside the United States and Canada. Many of our multinational domestic customers are seeking distribution, integrated supply and project management solutions globally. We follow our established customers and pursue business that we believe utilizes and extends our existing capabilities. We believe this strategy of working through well-developed customer and supplier relationships significantly reduces risk and provides the opportunity to establish profitable incremental business.

Competitive Strengths

We believe the following strengths are central to the successful execution of our business strategy:

Market Leadership. Our ability to manage large construction projects, complex multi-site plant maintenance programs, procurement projects that require special sourcing, technical advice, logistical support and locally based service has enabled us to establish leadership positions in our principal markets. We have utilized these skills to generate significant revenues in industries with intensive use of electrical and MRO products, including electrical contracting, utilities, original equipment manufacturers (OEM) and process manufacturing and other commercial, institutional and governmental entities. We also have extended our position within these industries to expand our customer base.

Value-added Services. We provide a wide range of services and procurement solutions that draw on our product knowledge, supply and logistics expertise and systems capabilities, enabling our customers with large operations and multiple locations to reduce supply chain costs and improve efficiency. Our geographical coverage is essential to our ability to provide these services. We have an extensive branch network which complements our national sales and marketing activities with local customer service, product information and technical support, order fulfillment and a variety of other on-site services.

Broad Product Offering. We provide our customers with a broad product selection consisting of more than 1,000,000 electrical, industrial, data communications, MRO and utility products sourced from more than 29,000 suppliers. Our broad product offering and stable source of supply enables us to meet virtually all of a customer s electrical product and MRO requirements.

Extensive Distribution Network. We are a full-line distributor of electrical supplies and equipment with operations in the United States, Canada, Mexico, Guam, the United Kingdom, Nigeria, United Arab Emirates and Singapore. We operate more than 400 branch locations and seven distribution centers (five in the United States and two in Canada). This extensive network, which would be extremely difficult and expensive to duplicate, allows us to:

- maintain localized customer service, technical support and sales coverage;
- tailor branch products and services to local customer needs;
- offer multi-site distribution capabilities to large customers and national accounts; and
- provide same-day deliveries.

Low Cost Operator. Our competitive position has been enhanced by our low cost position, which is based on:

- extensive use of automation and technology;
- centralization of functions such as purchasing, accounting and information systems;
- strategically located distribution centers;
- purchasing economies of scale; and
- incentive programs that increase productivity and encourage entrepreneurship.

As a result of these factors, we believe that our operating costs as a percentage of sales is one of the lowest in our industry. Our selling, general and administrative expenses as a percentage of revenues for 2006 decreased to 13%, significantly below our peer group 2005 average of approximately 20%, according to the National Association of Electrical Distributors. Our low cost position enables us to generate a significant amount of net cash flow, as the amount of capital investment required to maintain our business is relatively low. Consequently, more of the cash we generate is available for debt reduction, continued investment in the growth of the business and strategic acquisitions.

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Products and Services

Products

Our network of branches and distribution centers stock more than 250,000 unique product stock keeping units (SKUs). Each branch tailors its inventory to meet the needs of the customers in its local market, stocking an average of approximately 2,500 SKUs. Our business allows our customers to access more than 1,000,000 products.

Representative products and services that we offer include:

Electrical Supplies. Wiring devices, fuses, terminals, connectors, boxes, enclosures, fittings, lugs, terminations, tape, and splicing and marking equipment;

Industrial Supplies. Tools and testers, safety and security, fall protection, personal protection, consumables, fasteners, janitorial and other MRO supplies;

Power Distribution. Circuit breakers, transformers, switchboards, panel boards, metering products and busway products;

Lighting. Lamps, fixtures, ballasts and lighting control products; · *Wire and Conduit.* Wire, cable, raceway, metallic and non-metallic conduit;

Control, Automation and Motors. Motor control devices, drives, surge and power protection, relays, timers, pushbuttons and operator interfaces; and

Data Communications. Structured cabling systems, low voltage specialty systems and specialty wire and cable products.

We purchase products from a diverse group of more than 29,000 suppliers. In 2006, our ten largest suppliers accounted for approximately 33% of our purchases. The largest of these was Eaton Corporation, through its Eaton Electrical division, accounting for approximately 12% of total purchases. No other supplier accounted for more than 5% of total purchases.

Our supplier relationships are important to us, providing access to a wide range of products, technical training and sales and marketing support. We have preferred supplier agreements with more than 230 of our suppliers and purchase over 60% of our inventory pursuant to these agreements. Consistent with industry practice, most of our agreements with suppliers, including both distribution agreements and preferred supplier agreements, are terminable by either party on 60 days notice or less.

Services

In conjunction with product sales, we offer customers a wide range of services and procurement solutions that draw on our product and supply management expertise and systems capabilities. These services include national accounts programs, integrated supply programs and major project programs. We are responding to the needs of our customers, particularly those in processing and manufacturing industries. To more efficiently manage the MRO process on behalf of our customers, we offer a range of supply management services, including:

outsourcing of the entire MRO purchasing process;

providing technical support for manufacturing process improvements using state-of-the-art automated solutions;

implementing inventory optimization programs;

participating in joint cost savings teams;

assigning our employees as on-site support personnel;

recommending energy-efficient product upgrades; and

offering safety and product training for customer employees.

National Accounts Programs. The typical national account customer is a Fortune 500 industrial company, a large utility or other major customer, in each case with multiple locations. Our national accounts programs are designed to provide customers with total supply chain cost reductions by coordinating purchasing activity for MRO supplies and direct materials across multiple locations. Comprehensive implementation plans establish jointly managed teams at the local and national level to prioritize activities, identify key performance measures and track progress against objectives. We involve our preferred suppliers early in the implementation process, where they can contribute expertise and product knowledge to accelerate program implementation and the achievement of cost savings and process improvements.

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Integrated Supply Programs. Our integrated supply programs offer customers a variety of services to support their objectives for improved supply chain management. We integrate our personnel, product and distribution expertise, electronic technologies and service capabilities with the customer s own internal resources to meet particular service requirements. Each integrated supply program is uniquely configured to deliver a significant reduction in the number of MRO suppliers, reduce total procurement costs, improve operating controls and lower administrative expenses. Our solutions range from just-in-time fulfillment to assuming full responsibility for the entire procurement function for all indirect purchases. We believe that customers will increasingly seek to utilize us as an integrator, responsible for selecting and managing the supply of a wide range of MRO and OEM products.

Markets and Customers

We have a large base of approximately 110,000 customers diversified across our principal markets. Our top ten customers accounted for approximately 11% of our sales. No customer accounted for more than 3% of our total sales in 2006.

Industrial Customers. Sales to industrial customers, which include numerous manufacturing and process industries accounted for approximately 42% of our sales in 2006. We provide products and services for MRO and OEM use. MRO products are needed to maintain and upgrade the electrical and communications networks at industrial sites. Expenditures are greatest in the heavy process industries, such as food processing, metals, pulp and paper and petrochemical. MRO product categories in addition to electrical supplies include, among others, lubricants, pipe, valves and fittings, fasteners, cutting tools and power transmission products. OEMs typically require a reliable, high-volume supply of products or components to incorporate into their own products. Customers in this market are particularly service and price sensitive due to the volume and the critical nature of the product used, and they also expect value-added services such as design and technical support, just-in-time supply and electronic commerce.

Electrical Contractors. Sales to electrical contractors accounted for approximately 34% of our sales in 2006. Customers range from large contractors for major industrial and commercial projects to small residential contractors. We primarily serve large contractors, Electrical products purchased by electrical subcontractors typically account for approximately 40% to 50% of their installed project cost, making accurate cost estimates and competitive material costs critical to a contractor s success in obtaining profitable projects.

Utilities. Sales to utilities and specialty utility contractors accounted for approximately 17% of our sales in 2006. This market includes large investor-owned utilities, rural electric cooperatives and municipal power authorities. We provide our utility customers with transmission and distribution products and an extensive range of supplies to meet their power plant MRO and capital projects needs. Full materials management and procurement outsourcing arrangements are also important in this market as cost pressures and deregulation cause utility customers to streamline purchasing and inventory control practices.

Commercial, Institutional and Governmental (CIG) Customers. Sales to CIG customers accounted for approximately 6% of our sales in 2006. This fragmented market includes schools, hospitals, property management firms, retailers and government agencies of all types. We have a platform to sell integrated lighting control and distribution equipment in a single package for multi-site specialty retailers, restaurant chains and department stores.

Distribution Network

Branch Network. We have more than 400 branches, of which approximately 340 are located in the United States, about 50 are located in Canada and the remainder located in Mexico, Guam, the United Kingdom, Nigeria, United Arab Emirates and Singapore. In addition to consolidations in connection with acquisitions, we occasionally open, close or consolidate existing branch locations to improve market coverage and operating efficiency.

Distribution Centers. To support our branch network, we have seven distribution centers located in the United States and Canada, with facilities located near Pittsburgh, Pennsylvania, serving the Northeast and Midwest United States; near Reno, Nevada, serving the Western United States; near Memphis, Tennessee, serving the Southeast and Central United States; near Dayton, Ohio, serving the Midwest United States; in Little Rock, Arkansas, serving the Northeast, Central and Western United States; near Montreal, Quebec, serving Eastern and Central Canada; and near Vancouver, British Columbia, serving Western Canada.

Our distribution centers add value for our branches, suppliers and customers through the combination of a broad and deep selection of inventory, online ordering, same-day shipment and central order handling and fulfillment. Our distribution center network reduces the lead-time and improves the reliability of our supply chain, giving us a distinct competitive advantage in customer service. Additionally, the distribution centers reduce the time and cost of supply chain activities through automated replenishment and warehouse management systems and economies of scale in purchasing, inventory management, administration and transportation.

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Sales Organization

Sales Force. Our general sales force is based at the local branches and is comprised of approximately 2,600 of our employees, almost half of whom are outside sales representatives with the remainder being inside sales personnel. They are responsible for making direct customer calls, performing on-site technical support, generating new customer relations and developing existing territories. The inside sales force is a key point of contact for responding to routine customer inquiries such as price and availability requests and for entering and tracking orders.

National Accounts. Our national accounts sales force comprises an experienced group of sales executives who negotiate and administer contracts, coordinate branch participation and identify sales and service opportunities. National accounts managers efforts target specific customer industries, including automotive, pulp and paper, petrochemical, steel, mining and food processing.

We also have a sales management group, comprising our most experienced construction management personnel, which focus on serving the complex needs of North America s largest engineering and construction firms and the top regional and national electrical contractors. These contractors typically specialize in large, complex projects such as building industrial sites, water treatment plants, airport expansions, healthcare facilities, correctional institutions, sports stadiums and convention centers.

Data Communications. Sales of structured cabling systems, low voltage specialty systems and specialty wire and cable products are generated by the sales force at our subsidiaries which specialize in the sales of these products, as well as by our general sales force. The group is led by an experienced management team with dedicated resources in the areas of sales, marketing, product management, purchasing, inventory control, operations, credit and customer service.

E-Commerce. Our primary e-business strategy is to serve existing customers by tailoring our catalog and Internet-based procurement applications to their internal systems or through their preferred technology and trading exchange partnerships. We continue to expand our e-commerce capabilities, meeting our customers requirements as they develop and implement their e-procurement business strategies. We have strengthened our business and technology relationships with the trading exchanges chosen by our customers as their e-procurement partners. We continue to enhance and enrich our customized electronic catalogs provided to our customers for use with their internal business systems. We believe that we lead our industry in rapid e-implementation to customers procurement systems and integrated procurement functionality using punch-out technology, a direct system-to-system link with our customers.

We continue to enhance WESCO Express, a direct ship fulfillment operation responsible for supporting smaller customers and select national account locations. Customers can order from more than 68,000 electrical and data communications products stocked in our warehouses through a centralized customer service center or over the Internet at www.WESCOdirect.com. We also use a proactive sales approach utilizing catalogs, direct mail, e-mail and personal phone selling to provide a high level of customer service. Our 2006-2007 WESCO s Buyers Guide® was produced and released in 2006.

International Operations

To serve the Canadian market, we operate a network of approximately 50 branches in nine provinces. Branch operations are supported by two distribution centers located near Montreal and Vancouver. With sales of approximately US$599 million, sales in Canada represented approximately 11% of our total sales in 2006. The Canadian market for electrical distribution is considerably smaller than the U.S. market, with roughly US$4.9 billion in total sales in 2006, according to the Canadian Distribution Council.

We also have six locations in Mexico, headquartered in Tlalnepantla, that serve all of metropolitan Mexico City, the Federal District, Tobasco and the states of Campeche, Chihuahua, Hidalgo, Mexico, Morelos and Nuevo Leon.

We sell to other international customers through domestic export sales offices located within North America and sales offices in international locations. Our operations in Aberdeen, Scotland and London, England support sales efforts in Europe, oil and gas customers on a global basis, engineering procurement companies and the former Soviet Union. We have an operation in Nigeria to serve West Africa, an office in United Arab Emirates to serve the Middle East and an office in Singapore to support our sales to Asia and global oil and gas customers. All of the international locations have been established to primarily serve our growing list of customers with global operations referenced under National Accounts above.

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The following table sets forth information about us by geographic area:

	Net Sales Year Ended December 31,			Long-Lived Assets December 31,		
(In thousands)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
United States	$4,606,783	$3,829,755	$3,265,280	$1,193,586	$728,329	$488,787
Foreign Operations						
Canada	599,244	499,817	394,375	13,177	12,375	11,958
Other foreign	114,576	91,531	81,598	750	1,592	1,194
Subtotal Foreign Operations	713,820	591,348	475,973	13,927	13,967	13,152
Total U.S. and Foreign	$5,320,603	$4,421,103	$3,741,253	$1,207,513	$742,296	$501,939

Management Information Systems

We have implemented data processing systems to provide support for a full range of business functions, such as customer service, inventory and logistics management, accounting and administrative support. Our branch information system, known as WESNET, is the primary data processing vehicle for all branch operations (other than our Bruckner Integrated Supply Division, Communications Supply Holding, Inc. (Communications Supply) and certain acquired branches). The WESNET system provides all of the basic day-to-day order management and order fulfillment functions. The WESNET application and server reside locally within each branch and provide us with a flexible and cost-effective approach to facilitate expansion and organizational growth. The distributed systems are connected to a centralized data processing center via a wide area network that provides a tightly coupled, yet flexible system.

The centralized corporate information system and data warehouse provide a platform with capability that we believe exceeds many of the most advanced enterprise resource planning packages available on the market. Our centralized servers contain near real-time transactional data from each branch system, as well as multiple years of historical transaction data. The centralized server and data warehouse technology provide a cost-effective mechanism to better monitor, manage and enhance operational processes. These systems have become the principal technology supporting inventory management, purchasing management, automated stock replenishment, margin analysis, and financial and operating analytics.

The data warehouse is also utilized to perform extensive operational analysis and provide detailed insight for all major business processes. By providing this technology, employees at all levels have the ability to analyze their area of responsibility and drive improvements through the organization. The system contains a variety of analytic tools, including activity-based costing capability for analyzing profitability by customer, sales representative, product type and shipment type. Many other tools permit analysis of sales and margins, supplier sales planning, item analysis, market analysis, product insight and many other operational reporting and trending applications.

The centralized platform facilitates the processing of customer orders, shipping notices, suppliers purchase orders and funds transfer via EDI. We have long supported standard EDI with many trading partners. Over the years, we have added capability to support several other integration vehicles beyond standard EDI to better support our customers needs. The evolving integration capability allows us to seamlessly connect our information systems platform with those of our customers and suppliers. Our e-commerce purchasing and order fulfillment platform is a user-friendly platform that will be integrated with our legacy systems.

Our integrated supply services are supported by state-of-the-art proprietary procurement and inventory management systems. These systems provide a fully integrated, flexible supply chain platform that currently handles over 95% of our integrated supply customers transactions electronically. Our configuration options for a customer range from online linkages to the customer s business and purchasing systems, to total replacement of a customer s procurement and inventory management system for MRO supplies.

Competition

We believe that we are the largest distributor in the estimated $84 billion U.S. electrical distribution industry and the largest provider of integrated supply services for MRO goods and services in the United States. We operate in a highly competitive and fragmented industry. We compete directly with national, regional and local providers of electrical and other industrial MRO supplies. In 2005, the latest year for which industry-published market share data is available, the four national distributors, including us, accounted for approximately 20% of estimated total industry sales. Competition is primarily focused on the local service area, and is generally based on product line breadth, product availability, service capabilities and price. Another source of competition is buying groups formed by smaller distributors to increase purchasing power and provide some cooperative marketing capability. While increased buying power may improve the competitive position of buying groups locally, we believe these groups have not been able to compete effectively with us for national account customers due to the difficulty in coordinating a diverse ownership group. Although certain Internet-based procurement service companies, auction businesses and trade exchanges remain in the marketplace, the impact on our business from these potential competitors has been minimal to date.

Employees

As of December 31, 2006, we had approximately 7,100 employees worldwide, of which approximately 6,300 were located in the United States and approximately 800 in Canada and our other international locations. Less than 5% of our employees are represented by unions. We believe our labor relations are generally good.

Intellectual Property

We currently have trademarks and service marks registered with the U.S. Patent and Trademark Office. The registered trademarks and service marks include: WESCO®, our corporate logo, the running man logo, the running man in box logo, WESCO Buyers Guide®, and The Extra Effort People®. In 2005, two trademarks, C-B Only the Best is Good Enough® and LADD®, were added as a result of the acquisition of Carlton-Bates Company. In addition, multiple trademarks and service marks were acquired in 2006 as a result of the Communications Supply Holdings, Inc. acquisition, including the primary marks of CSC®, CSC and design, and Liberty Wire & Cable®. WESCO, our corporate logo, the running man logo, and WESCO Buyers Guide trademarks and service mark applications for registration have been filed in various foreign jurisdictions, including Canada, Mexico, the United Kingdom, Singapore, China, and the European Community. The foreign trademark for WESCO Buyers Guide® was registered in Canada in August 2006.

Environmental Matters

Our facilities and operations are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose strict, joint and several liabilities on certain persons for the cost of investigation or remediation of contaminated properties. These persons may include former, current or future owners or operators of properties and persons who arranged for the disposal of hazardous substances. Our owned and leased real property may give rise to such investigation, remediation and monitoring liabilities under environmental laws. In addition, anyone disposing of certain products we distribute, such as ballasts, fluorescent lighting and batteries, must comply with environmental laws that regulate certain materials in these products.

We believe that we are in compliance, in all material respects, with applicable environmental laws. As a result, we do not anticipate making significant capital expenditures for environmental control matters either in the current year or in the near future.

Seasonality

Our operating results are not significantly affected by seasonal factors. Sales during the first quarter are generally less than 2% below the sales of the remaining three quarters due to a reduced level of activity during the winter months of January and February. Sales increase beginning in March, with slight fluctuations per month through December. As a result, our reported sales and earnings in the first quarter are generally lower than in subsequent quarters.

Website Access

Our Internet address is www.wesco.com. Information contained on our website is not part of, and should not be construed as being incorporated by reference into, this Annual Report on Form 10-K. We make available free of charge under the Investors heading on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as proxy and information statements, as soon as reasonably practicable after such documents are electronically filed or furnished, as applicable, with the Securities and Exchange Commission (the SEC). You also may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers like us who file electronically with the SEC.

In addition, our Charters for our Executive Committee, Nominating and Governance Committee, Audit Committee and Compensation Committee, as well as our Independence Standards, our Governance Guidelines and our Code of Ethics and Business Conduct for our directors, officers and employees, are all available on our website in the Corporate Governance link under the Investors heading.

Forward-Looking Information

This Annual Report on Form 10-K contains various forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve certain unknown risks and uncertainties, including, among others, those contained in Item 1, Business, Item 1A, Risk Factors, and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. When used in this Annual Report on Form 10-K, the words anticipates, plans, believes, estimates, intends, expects, projects, will and similar expre identify forward-looking statements, although not all forward-looking statements contain such words. Such statements, including, but not limited to, our statements regarding business strategy, growth strategy, productivity and profitability enhancement, competition, new product and service introductions and liquidity and capital resources are based on management s beliefs, as well as on assumptions made by and information currently available to, management, and involve various risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward-looking statement made by or on our behalf. In light of these risks and uncertainties, there can be no assurance that the forward-looking information will in fact prove to be accurate. We have undertaken no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Executive Officers

Our executive officers and their respective ages and positions as of December 31, 2006 are set forth below.

Name	Age	Position
Roy W. Haley	60	Chairman and Chief Executive Officer
John J. Engel	44	Senior Vice President and Chief Operating Officer
Stephen A. Van Oss	52	Senior Vice President and Chief Financial and Administrative Officer
William E. Cenk	49	Vice President, Operations
William M. Goodwin	61	Vice President, Operations
Steven J. Riordan	53	Vice President, Operations
Robert B. Rosenbaum	49	Vice President, Operations
Donald H. Thimjon	63	Vice President, Operations
Ronald P. Van, Jr.	46	Vice President, Operations
Daniel A. Brailer	49	Vice President, Treasurer, Legal and Investor Relations
Marcy Smorey-Giger	35	Corporate Counsel and Secretary

Set forth below is biographical information for our executive officers listed above.

Roy W. Haley has been Chief Executive Officer of the Company since February 1994, and Chairman of the Board since 1998. From 1988 to 1993, Mr. Haley was an executive at American General Corporation, a diversified financial services company, where he served as Chief Operating Officer, as President and as a Director. Mr. Haley is also a Director of United Stationers, Inc. and Cambrex Corporation. He currently serves on the Federal Reserve Bank of Cleveland and was former Chairman of the Pittsburgh Branch of the Federal Reserve Bank of Cleveland.

John J. Engel has been Senior Vice President and Chief Operating Officer since July 2004. Mr. Engel served from 2003 to 2004 as Senior Vice President and General Manager of Gateway, Inc. From 1999 to 2002, Mr. Engel served as an Executive Vice President and Senior Vice President of Perkin Elmer, Inc. In addition, Mr. Engel was a Vice President and General Manager of Allied Signal from 1994 to 1999 and held various management positions in General Electric from 1985 to 1994.

Stephen A. Van Oss has been Senior Vice President and Chief Financial and Administrative Officer since July 2004 and, from 2000 to July 2004 served as the Vice President and Chief Financial Officer. Mr. Van Oss also served as our Director, Information Technology from 1997 to 2000 and as our Director, Acquisition Management in 1997. From 1995 to 1996, Mr. Van Oss served as Chief Operating Officer and Chief Financial Officer of Paper Back Recycling of America, Inc. He also held various management positions with Reliance Electric Corporation. Mr. Van Oss is also a director of Williams Scotsman International, Inc. and a member of its audit committee. Additionally, he is a trustee of Robert Morris University and serves on the audit, finance and development committees.

William E. Cenk has been Vice President, Operations since April 2006. Mr. Cenk served as the Director of Marketing for us from 2000 to 2006. In addition, Mr. Cenk served in various leadership positions for our National Accounts and Marketing groups from 1994 through 1999.

William M. Goodwin has been Vice President, Operations since March 1994. From 1987 to 1994 Mr. Goodwin served as a branch, district and region manager in various locations and also served as Managing Director of WESCOSA, a former Westinghouse-affiliated manufacturing and distribution business in Saudi Arabia.

Steven J. Riordan has been Vice President, Operations since November 2006. From 1996 until 2006, Mr. Riordan was Chief Executive Officer and President of Communications Supply Holdings, Inc., a fully integrated national distributor of network infrastructure products that we acquired in November 2006.

Robert B. Rosenbaum has been Vice President, Operations since September 1998. From 1982 until 1998, Mr. Rosenbaum was the President of the Bruckner Supply Company, Inc., an integrated supply company that we acquired in September 1998.

Donald H. Thimjon has been Vice President, Operations since March 1994. Mr. Thimjon served as Vice President, Utility Group for us from 1991 to 1994 and as Regional Manager from 1980 to 1991.

Ronald P. Van, Jr. has been Vice President, Operations since October 1998. Mr. Van was a Vice President and Controller of EESCO, an electrical distributor that we acquired in 1996.

Daniel A. Brailer has been Vice President, Treasurer, Legal and Investor Relations since May 2006 and previously was Treasurer and Director of Investor Relations since March 1999. From 1982 to 1999, Mr. Brailer held various positions at Mellon Financial Corporation, most recently as Senior Vice President.

Marcy Smorey-Giger has been Corporate Counsel and Secretary since May 2004. From 2002 to 2004, Ms. Smorey-Giger served as Corporate Attorney and Manager, Compliance Programs. From 1999 to 2002, Ms. Smorey-Giger served as Compliance and Legal Affairs Manager.

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Item 1A. Risk Factors.

The following factors, among others, could cause our actual results to differ materially from the forward-looking statements we make. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified by the following cautionary statements:

Our outstanding indebtedness requires debt service obligations that could adversely affect our ability to fulfill our obligations and could limit our growth and impose restrictions on our business.

As of December 31, 2006, we had $1.1 billion of consolidated indebtedness, including $150 million in aggregate principal amount of 7.50% Senior Subordinated Notes due 2017 (the 2017 Notes), $150 million in aggregate principal amount of 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures), and $300 million in aggregate principal amount of 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures and together with the 2025 Debentures, the Debentures), and stockholders equity of $763.2 million. We and our subsidiaries may incur additional indebtedness in the future, subject to certain limitations contained in the instruments governing our indebtedness. These amounts include our accounts receivable securitization facility (the Receivables Facility), through which we sell up to $400 million of our accounts receivable to a third-party conduit. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates.

Our debt service obligations have important consequences, including but not limited to the following:

- a substantial portion of cash flow from our operations will be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available for operations, future business opportunities and acquisitions and other purposes, and increasing our vulnerability to adverse general economic and industry conditions;
- our ability to obtain additional financing in the future may be limited;
- we may be hindered in our ability to adjust rapidly to changing market conditions; and
- we may be required to incur additional interest due to the contingent interest features of the Debentures, which are embedded derivatives.

Our ability to make scheduled payments of principal and interest on our debt, refinance our indebtedness, make scheduled payments on our operating leases, fund planned capital expenditures or to finance acquisitions will depend on our future performance, which, to a certain extent, is subject to economic, financial, competitive and other factors beyond our control. There can be no assurance that our business will continue to generate sufficient cash flow from operations in the future to service our debt, make necessary capital expenditures or meet other cash needs. If unable to do so, we may be required to refinance all or a portion of our existing debt, to sell assets or to obtain additional financing.

Our Receivables Facility has a three-year term and is subject to renewal in May 2008. There can be no assurance that available funding or any sale of assets or additional financing would be possible at the time of renewal in amounts or terms favorable to us, if at all.

Over the next three years, we are obligated to pay approximately $401.8 million, of which $390.5 million is related to our Receivables Facility, $4.1 million is related to our mortgage credit facility, $3.7 million is related to notes payable associated with acquisitions, and $3.5 million is related to capital leases. Additionally, various acquisition agreements contain contingent consideration for final acquisition payments, which management has estimated will be $3.5 million and which is reported as deferred acquisition payable. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Our debt agreements contain restrictions that may limit our ability to operate our business.

Our credit facilities and the indenture governing WESCO Distribution s senior subordinated indebtedness contain, and any of our future debt agreements may contain, certain covenant restrictions that limit our ability to operate our business, including restrictions on our ability to:

- incur additional debt or issue guarantees;

create liens;

make certain investments;

enter into transactions with our affiliates;

sell certain assets;

make capital expenditures;

redeem capital stock or make other restricted payments;

declare or pay dividends or make other distributions to stockholders; and

merge or consolidate with any person.

Our credit facilities also require us to maintain specific earnings to fixed expenses and debt to earnings ratios and to meet minimum net worth requirements. In addition, our credit facilities contain additional affirmative and negative covenants. Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions.

As a result of these covenants, our ability to respond to changes in business and economic conditions and to obtain additional financing, if needed, may be significantly restricted, and we may be prevented from engaging in transactions that might otherwise be beneficial to us. In addition, our failure to comply with these covenants could result in a default under the Debentures, the 2017 Notes and our other debt, which could permit the holders to accelerate such debt. If any of our debt is accelerated, we may not have sufficient funds available to repay such debt.

We may be unable to repurchase the Debentures or the 2017 Notes for cash when required by the holders, including following a fundamental change.

Holders of the Debentures have the right to require us to repurchase the respective Debentures on specified dates or upon the occurrence of a fundamental change prior to maturity. The occurrence of a change of control would also constitute an event of default under our credit facilities, requiring repayment of amounts outstanding thereunder, and the occurrence of a change of control would also enable holders of the 2017 Notes to require WESCO Distribution to repurchase such 2017 Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any. Any of our future debt agreements may contain similar provisions. We may not have sufficient funds to make the required repayments and repurchase at such time or the ability to arrange necessary financing on acceptable terms. In addition, our ability to repurchase the Debentures or the 2017 Notes in cash may be limited by law or the terms of other agreements relating to our debt outstanding at the time, including other credit facilities, which will limit our ability to purchase the Debentures or 2017 Notes for cash in certain circumstances. If we fail to repurchase the Debentures or 2017 Notes in cash as required by the respective indentures, it would constitute an event of default under the applicable indenture, which, in turn, would constitute an event of default under our credit facilities and the other indenture.

Provisions of the Debentures could discourage an acquisition of the Company by a third party.

Certain provisions of the Debentures could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Debentures will have the right, at their option, to require us to repurchase all of their Debentures or any portion of the principal amount of such Debentures in integral multiples of $1,000. In addition, the occurrence of certain change of control transactions may result in the Debentures becoming convertible for additional shares or result in antidilution adjustments which may have an effect of making an acquisition of us less attractive. We may also be required to issue additional shares upon conversion or provide for conversion into the acquirer s capital stock in the event of certain fundamental changes.

If the financial condition of our customers declines, our credit risk could increase.

In light of the financial stresses within the worldwide automotive industry, certain automakers and tier-one mirror customers have already declared bankruptcy or may be considering bankruptcy. Should one or more of our larger customers declare bankruptcy, it could adversely impact the collectibility of our accounts receivable, bad debt expense and net income.

Downturns in the electrical distribution industry have had in the past, and may in the future have, an adverse effect on our sales and profitability.

The electrical distribution industry is affected by changes in economic conditions, including national, regional and local slowdowns in construction and industrial activity, which are outside our control. Our operating results may also be adversely affected by increases in interest rates that may lead to a decline in economic activity, particularly in the construction market, while simultaneously resulting in higher interest payments under the revolving credit facility. In addition, during periods of economic slowdown such as the one we recently experienced, our credit losses, based on history, could increase. There can be no assurance that economic slowdowns, adverse economic conditions or cyclical trends in certain customer markets will not have a material adverse effect on our operating results and financial condition.

An increase in competition could decrease sales or earnings.

We operate in a highly competitive industry. We compete directly with national, regional and local providers of electrical and other industrial MRO supplies. Competition is primarily focused in the local service area and is generally based on product line breadth, product availability, service capabilities and price. Other sources of competition are buying groups formed by smaller distributors to increase purchasing power and provide some cooperative marketing capability.

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Some of our existing competitors have, and new market entrants may have, greater financial and marketing resources than us. To the extent existing or future competitors seek to gain or retain market share by reducing prices, we may be required to lower our prices for current services, thereby adversely affecting financial results. Existing or future competitors also may seek to compete with us for acquisitions, which could have the effect of increasing the price and reducing the number of suitable acquisitions. In addition, it is possible that competitive pressures resulting from industry consolidation could affect our growth and profit margins.

Loss of key suppliers or lack of product availability could decrease sales and earnings.

Most of our agreements with suppliers are terminable by either party on 60 days notice or less. Our ten largest suppliers in 2006 accounted for approximately 33% of our purchases for the period. Our largest supplier in 2006 was Eaton Corporation, through its Eaton Electrical division, accounting for approximately 12% of our purchases. The loss of, or a substantial decrease in the availability of, products from any of these suppliers, or the loss of key preferred supplier agreements, could have a material adverse effect on our business. Supply interruptions could arise from shortages of raw materials, labor disputes or weather conditions affecting products or shipments, transportation disruptions, or other reasons beyond our control. In addition, certain of our products, such as wire and conduit, are commodity-price-based products and may be subject to significant price fluctuations which are beyond our control. An interruption of operations at any of our distribution centers could have a material adverse effect on the operations of branches served by the affected distribution center. Furthermore, we cannot be certain that particular products or product lines will be available to us, or available in quantities sufficient to meet customer demand. Such limited product access could cause us to be at a competitive disadvantage.

Acquisitions that we may undertake would involve a number of inherent risks, any of which could cause us not to realize the benefits anticipated to result.

We have historically expanded our operations through selected acquisitions of businesses and assets. Acquisitions involve various inherent risks, such as:

- uncertainties in assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates;
- the potential loss of key employees of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition or other transaction;
- problems that could arise from the integration of the acquired business; and
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition or other transaction rationale.

Any one or more of these factors could cause us not to realize the benefits anticipated to result from the acquisition of businesses or assets.

Goodwill and intangible assets recorded as a result of our acquisitions could become impaired.

As of December 31, 2006, our goodwill and other intangible assets amounted to $1.1 billion, net of accumulated amortization. To the extent we do not generate sufficient cash flows to recover the net amount of any investments in goodwill and other intangible assets recorded, the investment could be considered impaired and subject to write-off. We expect to record further goodwill and other intangible assets as a result of future acquisitions we may complete. Future amortization of such other intangible assets or impairments, if any, of goodwill or intangible assets would adversely affect our results of operations in any given period.

A disruption of our information systems could increase expenses, decrease sales or reduce earnings.

A serious disruption of our information systems could have a material adverse effect on our business and results of operations. Our computer systems are an integral part of our business and growth strategies. We depend on our information systems to process orders, manage inventory and accounts receivable collections, purchase products, ship products to our customers on a timely basis, maintain cost-effective operations and provide superior service to our customers.

Our business may be harmed by required compliance with anti-terrorism measures and regulations.

Following the 2001 terrorist attacks on the United States, a number of federal, state and local authorities have implemented various security measures, including checkpoints and travel restrictions on large trucks, such as the ones that we and our suppliers use. If security measures disrupt or impede the timing of our suppliers deliveries of the product inventory we need or our deliveries of our product to our customers, we may not be able to meet the needs of our customers or may incur additional expenses to do so.

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Anti-takeover provisions could negatively impact our stockholders.

Provisions of Delaware law and of our certificate of incorporation and bylaws could make it more difficult for a third-party to acquire control of us. For example, we are subject to Section 203 of the Delaware General Corporation Law, which would make it more difficult for another party to acquire us without the approval of our Board of Directors. Our Board of Directors is divided into three classes, with each class serving a three-year term. Additionally, our Restated Certificate of Incorporation authorizes our Board of Directors to issue preferred stock without requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third-party to acquire us even if an acquisition might be in the best interest of our stockholders.

There may be future dilution of our common stock.

To the extent options to purchase common stock under our stock option plans are exercised, holders of our common stock will incur dilution. Additionally, our Debentures include contingent conversion price provisions and options for settlement in shares, which would increase dilution to our stockholders.

There is a risk that the market value of our common stock may decline.

Stock markets have experienced significant price and trading volume fluctuations, and the market prices of companies in our industry have been volatile. It is impossible to predict whether the price of our common stock will rise or fall. Trading prices of our common stock will be influenced by our operating results and prospects and by economic, financial and other factors.

Future sales of our common stock in the public market or issuance of securities senior to our common stock could adversely affect the trading price of our common stock and the value of the Debentures and our ability to raise funds in new stock offerings.

Future sales of substantial amounts of our common stock or equity-related securities in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and the value of the Debentures and could impair our ability to raise capital through future offerings of equity or equity-related securities. No prediction can be made as to the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the trading price of our common stock or the value of the Debentures.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

We have approximately 400 branches, of which approximately 340 are located in the United States, approximately 50 are located in Canada and the remainder are located in Mexico, Guam, the United Kingdom, Nigeria, United Arab Emirates and Singapore. Approximately 22% of our branches are owned facilities, and the remainder are leased.

The following table summarizes our distribution centers:

Location	Square Feet	Leased/Owned
Warrendale, PA.	194,000	Owned
Sparks, NV	131,000	Leased
Byhalia, MS	148,000	Owned
Little Rock, AR	100,000	Leased
Dorval, QE	90,000	Leased
Burnaby, BC	65,000	Owned
Kettering, OH	48,000	Leased

We also lease our 69,000-square-foot headquarters in Pittsburgh, Pennsylvania. We do not regard the real property associated with any single branch location as material to our operations. We believe our facilities are in good operating condition and are adequate for their respective uses.

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Item 3. Legal Proceedings.

From time to time, a number of lawsuits and claims have been or may be asserted against us relating to the conduct of our business, including routine litigation relating to commercial and employment matters. The outcome of any litigation cannot be predicted with certainty, and some lawsuits may be determined adversely to us. However, management does not believe, based on information presently available, that the ultimate outcome of any such pending matters is likely to have a material adverse effect on our financial condition or liquidity, although the resolution in any quarter of one or more of these matters may have a material adverse effect on our results of operations for that period.

We are a defendant in a lawsuit in a state court in Florida in which a former supplier alleges that we failed to fulfill our commercial obligations to purchase product and seeks monetary damages in excess of $17 million. We believe that we have meritorious defenses. Neither the outcome nor the monetary impact of this litigation can be predicted at this time. A jury trial is scheduled for April 2007.

Information relating to legal proceedings is included in Note 14, Commitments and Contingencies of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of our security holders during the fourth quarter of 2006.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The information specified in Item 201(e) of Regulation S-K is set forth under the caption Stock Performance Graphs of the Annual Report.

Our common stock is listed on the New York Stock Exchange under the symbol WCC. As of February 27, 2007, there were 48,864,640 shares of common stock outstanding held by approximately 25 holders of record. We have not paid dividends on the common stock, and do not presently plan to pay dividends in the foreseeable future. It is currently expected that earnings will be retained and reinvested to support either business growth, share repurchases or debt reduction. In addition, our revolving credit facility and the indenture governing the 2017 Notes restrict our ability to pay dividends. See Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. The following table sets forth the high and low sales prices per share of our common stock, as reported on the New York Stock Exchange, for the periods indicated.

	Sales Prices	
Quarter	**High**	**Low**
2005		
First	$37.37	$27.12
Second	31.93	23.14
Third	35.35	30.69
Fourth	44.21	33.49
2006		
First	$69.19	$43.00
Second	80.29	54.14
Third	70.65	55.36
Fourth	71.10	56.68

In December 2004, we completed a public offering of 4.0 million shares of our common stock. Certain selling stockholders offered an additional 7.1 million shares of common stock. Our net proceeds, which were approximately $99.9 million after deducting the underwriting discounts and offerings expenses, were used to repurchase a portion of our then outstanding 9.125% Senior Subordinated Notes due 2008 (the 2008 Notes) in the first quarter of 2005.

In the past three years, we have issued unregistered securities in connection with the following transactions:

In September 2005, WESCO Distribution sold $150.0 million aggregate principal amount of 2017 Notes to Goldman, Sachs & Co., Lehman Brothers Inc., UBS Securities LLC, Banc of America Securities LLC and Credit Suisse First Boston LLC, acting as initial purchasers, for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to non-U.S. persons outside the United States pursuant to Regulation S under the Securities Act. The 2017 Notes are unconditionally guaranteed by WESCO International on an unsecured senior basis. The aggregate offering price was $150.0 million, and the aggregate discounts and commissions were $3.0 million. Pursuant to an Exchange and Registration Rights Agreement with respect to the 2017 Notes and WESCO International s guarantee of the 2017 Notes, WESCO International and WESCO Distribution filed a registration statement with the SEC to register an exchange enabling holders of the 2017 Notes to exchange the 2017 Notes and the guarantee of the 2017 Notes for publicly registered senior subordinated notes, and a similar unconditional guarantee of those notes by WESCO International, with substantially identical terms (except for terms relating to additional interest and transfer restrictions). All of the original $150.0 million in aggregate principal amount of the 2017 Notes were exchanged in the exchange offer. WESCO International and WESCO Distribution completed the exchange offer in July 2006.

In September 2005, WESCO International sold $150.0 million aggregate principal amount of 2025 Debentures to Lehman Brothers Inc., Goldman Sachs & Co., UBS Securities LLC, Banc of America Securities LLC and Credit

Suisse First Boston LLC, acting as initial purchasers, for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2025 Debentures are unconditionally guaranteed by WESCO Distribution on an unsecured senior basis. The aggregate offering price was $150.0 million, and the aggregate discounts and commissions were $3.8 million. A resale registration statement covering the outstanding 2025 debentures, the guarantee of the 2025 Debentures and the common stock into which the 2025 Debentures may be converted was declared effective by the SEC in June 2006.

In November 2006, WESCO International sold $300.0 million aggregated principal amount of 2026 Debentures to Lehman Brothers Inc., Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co. and J.P. Morgan Securities Inc., acting as initial purchasers, for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2026 Debentures are unconditionally guaranteed by WESCO Distribution on an unsecured senior basis. The aggregate offering price was $300.0 million, and the aggregate discounts and commissions were $7.5 million.

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Item 6. Selected Financial Data.

Selected financial data and significant events related to the Company s financial results for the last five fiscal years are listed below. The financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 and with Management s Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7.

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in millions, except share data)				
Income Statement Data:					
Net sales(1)	$ 5,320.6	$ 4,421.1	$ 3,741.3	$ 3,286.8	$ 3,325.8
Gross profit (2)	1,086.5	840.7	712.1	610.1	590.8
Selling, general and administrative expenses	692.9	612.8	544.5	501.5	494.4
Depreciation and amortization	28.7	18.6	18.1	22.5	19.8
Income from operations	364.9	209.3	149.5	86.1	76.6
Interest expense, net	24.6	30.2	40.8	42.3	43.0
Loss on debt extinguishment (3)		14.9	2.6	0.2	1.1
Other expenses(4)	22.8	13.3	6.6	4.5	6.6
Income before income taxes	317.5	150.9	99.5	39.1	25.9
Provision for income taxes(5)	100.2	47.4	34.6	9.1	2.8
Net income(1)	$ 217.3	$ 103.5	$ 64.9	$ 30.0	$ 23.1
Earnings per common share					
Basic	$ 4.46	$ 2.20	$ 1.55	$ 0.67	$ 0.51
Diluted	$ 4.14	$ 2.10	$ 1.47	$ 0.65	$ 0.49
Weighted average common shares outstanding					
Basic	48,724,343	47,085,524	41,838,034	44,631,459	45,033,964
Diluted	52,463,695	49,238,436	44,109,153	46,349,082	46,820,093
Other Financial Data:					
Capital expenditures	$ 18.4	$ 14.2	$ 12.1	$ 8.4	$ 9.3
Net cash provided by operating activities	207.1	295.1	21.9	35.8	20.3
Net cash used by investing activities(1)	(558.0)	(291.0)	(46.3)	(9.2)	(23.1)
Net cash provided (used) by financing activities	402.1	(17.0)	30.7	(22.3)	(49.9)

Ratio of earnings to fixed charges[6]	9.5x	4.7x	2.9x	1.7x	1.5x
Balance Sheet Data:					
Total assets	$ 2,824.0	$ 1,651.2	$ 1,356.9	$ 1,161.2	$ 1,019.5
Total debt (including current portion and short-term debt)	1,140.3	403.6	417.6	422.2	418.0
Long-term obligations[7]		4.3	2.0	53.0	
Stockholders equity	763.2	491.5	353.6	167.7	169.3

(1) Reflects the impact of acquisitions completed in 2006 and 2005. See Note 5 to the consolidated financial statements.

(2) Excludes depreciation and amortization.

(3) Represents charges relating to the write-off of unamortized debt issuance and other costs associated with the early extinguishment of debt.

(4) Represents costs relating to the sale of accounts receivable pursuant to our Receivables Facility. See Note 4 to the consolidated financial statements.

(5) Benefits of $2.6 million and $5.3 million in

2003 and 2002, respectively, from the resolution of prior year tax contingencies resulted in an unusually low provision for income taxes.

(6) For purposes of calculating the ratio of earnings to fixed charges, earnings represents income before income taxes plus fixed charges. Fixed charges consist of interest expense, amortization of deferred financing costs and the component of rental expense that management believes is representative of the interest component of rental expense.

(7) Includes amounts due under earnout agreements for past acquisitions.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K.

Company Overview

In 2006, we achieved significant organic growth, completed a major acquisition, executed new initiatives to reduce cost, issued additional lower-cost debt and increased financing availability under our revolving credit agreement and Receivables Facility. In addition, we saw favorable market conditions that reflected improved activity levels in our major end markets. Our financial results reflect sales growth in our served markets, along with positive impact from our recent acquisitions and productivity initiatives. Sales increased 20.3% over the same period last year, and our gross margin percentage was 20.4% compared to 19.0% in the prior year. During 2006, sales from our recent acquisitions were $506.6 million and accounted for approximately 9.1% of the sales increase. Higher commodity prices, increased demand and favorable exchange rates, offset by reduced hurricane activity also contributed to the higher revenues. Operating income increased 74.4% to $365.0 million primarily from organic growth from the base business along with income from operations acquired in the third quarter of 2005. The combination of all these factors led to net income of $217.3 million, an increase of 110%. Diluted earnings per share increased 97% in 2006 to $4.14 compared with $2.10 in 2005.

Our end markets consist of industrial, construction, utility and commercial, institutional and governmental customers. Our sales to reach these markets can be categorized as stock, direct ship and special order. Stock orders are filled directly from existing inventory and generally represent approximately 48% of total sales. Approximately 41% of our total sales are direct ship sales. Direct ship sales are typically custom-built products, large orders or products that are too bulky to be easily handled and, as a result, are shipped directly to the customer from the supplier. Special orders are for products that are not ordinarily stocked in inventory and are ordered based on a customer s specific request. Special orders represent the remainder of total sales.

We have historically financed our working capital requirements, capital expenditures, acquisitions and new branch openings through internally generated cash flow, borrowings under our credit facilities and funding through our Receivables Facility. Our acquisition of Communications Supply in November 2006 for approximately $536 million was financed using proceeds from the offering of our 2026 Debentures, borrowings from our revolving credit facility and Receivables Facility and cash from operations.

Cash Flow

We generated $207.1 million in operating cash flow during 2006. Included in this amount were $6.5 million of cash outflow from a reduction in our Receivables Facility, whereby we sell, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corp., a wholly owned, special-purpose entity (SPE). Acquisition payments made in 2006 (net of cash acquired) were $530.1 million for the acquisition of Communications Supply, $5.5 million for purchase price adjustments related to the acquisition of Carlton-Bates and $4.9 million in earnout payments arising from prior acquisitions. In June 2006, we paid $20.0 million pursuant to the terms of a note payable relating to our acquisition in 1998 of Bruckner Supply Company, Inc. (Bruckner). During 2006, we received gross proceeds from the issuance of our 2026 Debentures of $300.0 million.

Financing Availability

As of December 31, 2006, we had approximately $326.9 million in total available borrowing capacity under our revolving credit facility and had drawn $390.5 million under our Receivables Facility.

Outlook

Management anticipates that overall economic growth will continue through 2007, and this is expected to lead to increased product demand and sales growth. Our continued focus on margin and operating productivity improvement should produce enhanced financial performance in 2007. We plan to use cash flow from operations plus our credit facilities to fund working capital requirements and capital expenditures, to pay down debt, to repurchase shares and to fund the cost of acquisitions, if any.

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Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to supplier programs, bad debts, inventories, insurance costs, goodwill, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. If actual market conditions are less favorable than those projected by management, additional adjustments to reserve items may be required. We believe the following critical accounting policies affect our judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenues are recognized for product sales when title, ownership and risk of loss pass to the customer, or for services when the service is rendered or evidence of a customer arrangement exists. In the case of stock sales and special orders, a sale occurs at the time of shipment from our distribution point, as the terms of our sales are FOB shipping point. In cases where we process customer orders but ship directly from our suppliers, revenue is recognized once product is shipped and title has passed. For some of our customers, we provide services such as inventory management or other specific support. Revenues are recognized upon evidence of fulfillment of the agreed upon services. In all cases, revenue is recognized once the sales price to our customer is fixed or is determinable and we have reasonable assurance as to the collectibility in accordance with Staff Accounting Bulletin No.104.

Gross Profit

Our calculation of gross profit is net sales less cost of goods sold. Cost of goods sold includes our cost of the products sold and excludes cost for warehousing, selling, general and administrative expenses and depreciation and amortization, which are reported separately in the statement of income.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We have a systematic procedure using estimates based on historical data and reasonable assumptions of collectibles made at the local branch level and on a consolidated corporate basis to calculate the allowance for doubtful accounts.

Excess and Obsolete Inventory

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. A systematic procedure is used to determine excess and obsolete inventory reflecting historical data and reasonable assumptions for the percentage of excess and obsolete inventory on a consolidated basis.

Supplier Volume Rebates

We receive rebates from certain suppliers based on contractual arrangements with them. Since there is a lag between actual purchases and the rebates received from the suppliers, we must estimate and accrue the approximate amount of rebates available at a specific date. We record the amounts as other accounts receivable on the balance sheet. The corresponding rebate income is recorded as a reduction of cost of goods sold. The appropriate level of such income is derived from the level of actual purchases made by us from suppliers, in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No. 02-16*, Accounting by a Reseller for Cash Consideration Received from a Vendor*.

Goodwill and Indefinite Life Intangible Assets

As described in the notes to the consolidated financial statements, we test goodwill and indefinite life intangible assets for impairment annually or more frequently when events or circumstances occur indicating that their carrying value may not be recoverable. This process involves estimating fair value using discounted cash flow analyses. Considerable management judgment is necessary to estimate discounted future cash flows. Assumptions used for these estimated cash flows were based on a combination of historical results and current internal forecasts. Two primary assumptions were an average long-term revenue growth ranging from 3% to 17% depending on the end market served and a discount rate of 10%. We cannot predict certain events that could adversely affect the reported value of goodwill and indefinite life intangible assets, which totaled $977.4 million at December 31, 2006 and $560.6 million at December 31, 2005.

Intangible Assets

We account for certain economic benefits purchased as a result of our acquisitions, including customer relations, distribution agreements and trademarks, as intangible assets. Except for trademarks, which have an indefinite life, we amortize intangible assets over a useful life determined by the expected cash flows produced by such intangibles and their respective tax benefits. Useful lives vary between 3 and 19 years, depending on the specific intangible asset.

Insurance Programs

We use commercial insurance for auto, workers compensation, casualty and health claims as a risk reduction strategy to minimize catastrophic losses. Our strategy involves large deductibles where we must pay all costs up to the deductible amount. We estimate our reserve based on historical incident rates and costs.

Income Taxes

We record our deferred tax assets at amounts that are expected to be realized. We evaluate future taxable income and potential tax planning strategies in assessing the potential need for a valuation allowance. Should we determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made. We review tax issues and positions taken on tax returns and determine the need and amount of contingency reserves necessary to cover any probable audit adjustments.

Stock-Based Compensation

Our stock-based employee compensation plans are comprised of fixed stock options and stock-settled stock appreciation rights. During the year ended December 31, 2003, we adopted the measurement provisions of SFAS No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*. Stock options awarded prior to 2003 were accounted for under the intrinsic value method (i.e. the difference between the market price on the exercise date and the price paid by the employee to exercise the options) under Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees.*

Beginning January 1, 2006, we 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, which is consistent with the valuation techniques previously utilized for stock-based awards in footnote disclosures required under SFAS 123. Expected volatilities are based on historical volatility of our common stock. We estimate the expected life of the option or stock settled appreciation right using historical data pertaining to option exercises and employee terminations. The risk-free rate is based on the U.S. Treasury yields in effect at the time of grant. The forfeiture assumption is based on our historical employee behavior, which we review on an annual basis. No dividends are assumed.

We recognized $11.7 million (including $0.1 million due to the adoption of SFAS 123R and related to the vesting in 2006 of options granted prior to January 1, 2003), $8.6, and $2.9 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, in 2006, 2005, and 2004 respectively.

As of December 31, 2006, there was $20.5 million of total unrecognized compensation expense related to non-vested stock-based compensation arrangements for all awards previously made of which approximately $11.8 million is expected to be recognized in 2007, $6.5 million in 2008 and $2.2 million in 2009.

Accounts Receivable Securitization Facility

Under our Receivables Facility, we sell, on a continuous basis, all domestic accounts receivable to WESCO Receivables Corporation, a wholly owned 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 the form of over collateralization, in a portion of the receivables.

We account for the Receivables Facility in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140). Prior to December 2006, we accounted for transfers of receivables pursuant to the facility as a sale and removed them from our balance sheet. Expenses associated with the facility were reported as other expense in the statement of income. In December 2006, the Receivables Facility was amended such that we effectively maintain control of receivables transferred pursuant to the facility; therefore the transfers no longer qualify for sale treatment under SFAS No. 140. As a result, the transferred receivables remain on our balance sheet, and we now recognize the related secured borrowing. Expenses associated with the Receivables Facility will be reported as interest expense in the statement of income beginning in 2007.

Results of Operations

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

	Year Ended December 31		
	2006	2005	2004
Net sales	100.0%	100.0%	100.0%
Gross profit	20.4	19.0	19.0
Selling, general and administrative expenses	13.0	13.9	14.6
Depreciation and amortization	0.5	0.4	0.5
Income from operations	6.9	4.7	3.9
Interest expense	0.5	0.7	1.1
Loss on debt extinguishment	0.0	0.3	
Other expenses	0.4	0.3	0.2
Income before income taxes	6.0	3.4	2.6
Provision for income taxes	1.9	1.1	0.9
Net income	4.1%	2.3%	1.7%

2006 Compared to 2005

Net Sales. Sales in 2006 increased 20.3% to $5,320.6 million, compared with $4,421.1 million in 2005, primarily as a result of strong growth in our markets served, acquisitions and sales productivity initiatives. Sales from our recent acquisitions were $506.6 million and accounted for approximately 9.1% of the 2006 sales increase. Sales in 2006 also benefited by approximately 6.0% over 2005 from price increases which kept pace with rising cost of sales, approximately 1.0% from favorable currency exchange rates and the remaining 4.2% from higher sales volume, offset by decreased hurricane related activity. Sales volume in 2006 grew faster than that of our end markets served.

Gross Profit. Gross profit increased 29.2% in 2006 to $1,087 million, compared with $841 million in 2005, driven primarily by margin improvement initiatives and higher margins on acquisitions completed in 2005 and 2006. Gross margin percentage was 20.4% in 2006 compared with 19.0% in 2005.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses include costs associated with personnel, shipping and handling, travel, advertising, facilities, utilities and bad debts. SG&A expenses increased by $80.1 million, or 13.1%, to $692.9 million in 2006. As a percentage of net sales, SG&A expenses decreased to 13.0% of sales, compared with 13.9% in 2005, reflecting the positive impact of cost-containment initiatives and the leverage of higher sales volume. Also contributing to this decrease is the reduction in legal costs due to a significant legal settlement which was finalized in 2005. SG&A payroll expenses for 2006 of $493.8 million increased by $83.0 million compared to 2005, of which $45.5 million resulted from the 2005 and 2006 acquisitions. Of the remaining $37.5 million increase in payroll expenses, $28.4 million resulted from increased salaries and variable commissions and incentive compensation costs resulting from increased sales and related gross margins, $4.7 million was from increased healthcare and benefit costs, $3.1 million was from increased stock option expense ($.1 million attributable to the implementation of SFAS 123R) and $1.3 million was from increased other SG&A related payroll expenses. Bad debt expense decreased to $3.8 million in 2006, compared with $8.6 million for 2005, reflecting increased scrutiny relative to credit advances and the account receivable collection process. Shipping and handling expense, included in SG&A expenses, was $48.9 million in 2006, compared with $44.8 million in 2005. The $4.1 million increase in 2006 shipping and handling expense included a $5.1 million increase due to acquisitions offset by $1 million related to cost containment initiatives.

Depreciation and Amortization. Depreciation and amortization increased $10.1 million to $28.7 million in 2006, compared with $18.6 million in 2005. The increase in depreciation and amortization related to acquisitions completed in 2005 and 2006 was $9.1 million. Depreciation from operations excluding acquisitions increased by $1.0 million from 2005 amounts as a result of the increase in capital expenditures. Depreciation and amortization are expected to increase in 2007 due to the acquisition of Communications Supply.

Income from Operations. Income from operations increased by $155.7 million, or 74.4%, to $365.0 million in 2006, compared with $209.3 million in 2005. The increase in operating income resulted from higher sales, an increase in gross profit and control over SG&A expenses.

Interest Expense. Interest expense totaled $24.6 million in 2006, compared with $30.2 million in 2005. The decrease was due primarily to redemptions of the 2008 Notes, which occurred in 2005, and to comparatively lower interest rates on the 2017 Notes and our Debentures. Interest expense is expected to increase in 2007 due to the issuance of the 2026 Debentures.

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Loss on Debt Extinguishment. There was no debt extinguished during 2006. Loss on debt extinguishment in 2005 was $14.9 million, reflecting redemptions of $324 million in aggregate principal amount of 2008 Notes.

Other Expenses. Other expenses increased in 2006 to $22.8 million, compared to $13.3 million in 2005, as a result of higher interest rates and increased borrowing under our Receivables Facility in 2006. As a result of the amendment to the Receivables Facility, costs associated with the Receivables Facility will be classified as interest expense in 2007.

Income Taxes. Our effective income tax rate increased to 31.6% in 2006, compared with 31.4% in 2005, as a result of higher state taxes offset by tax planning initiatives, which included U.S. tax benefits from foreign operations and U.S. tax credits.

Net Income. Net income and diluted earnings per share on a consolidated basis totaled $217.3 million and $4.14 per share, respectively, in 2006, compared with $103.5 million and $2.10 per share, respectively, in 2005.

2005 Compared to 2004

Net Sales. Sales in 2005 increased 18.2% to $4,421 million, compared with $3,741 million in 2004, primarily as a result of strong growth in our markets served, acquisitions and market share gains. Sales from our 2005 acquisitions, both of which were purchased in the third quarter, were $104.4 million, or approximately 2.8% over 2004 sales. Sales in 2005 also benefited by approximately 4.0% over 2004 from price increases which kept pace with rising cost of sales, approximately 0.9% from favorable currency exchange rates, and the remaining 10.5% from higher sales volume, of which approximately 1.0% was hurricane related. Sales volume in 2005 grew faster than that of our end markets served.

Gross Profit. Gross profit increased 18.1% in 2005 to $841 million, compared with $712 million in 2004, driven primarily by higher sales volume including acquisitions completed in 2005. Gross margin percentage was 19.0% in both years. Price increases in 2005 matched increases in cost of sales. Gross margin impact from sales mix was slightly less favorable in 2005 compared with 2004. However, acquisitions contributed positively to gross margin in 2005, resulting in equivalent gross margin percentages for both years.

Selling, General and Administrative (SG&A) Expenses. SG&A expenses include costs associated with personnel, shipping and handling, travel, advertising, facilities, utilities and bad debts. SG&A expenses increased by $68.3 million, or 12.5%, to $612.8 million in 2005. However, as a percentage of net sales, SG&A expenses decreased to 13.9% of sales, compared with 14.6% in 2004, reflecting cost-containment initiatives and sales rising faster than expenses. Total payroll expense in 2005 increased approximately $43.0 million over 2004, due principally to increases in salaries and non-cash compensation expense for equity awards in the amount of $20.3 million, variable incentive compensation costs of $13.5 million, healthcare and benefits costs of $4.9 million and expenses for contracted labor of $4.3 million. Approximately $12.1 million of the 2005 increase in salaries and related compensation expense was attributed to acquisitions made in 2005. Bad debt expense increased to $8.6 million in 2005, compared with $5.8 million for 2004, reflecting increases in accounts receivable and charges in accordance with our policy. Shipping and handling expense, included in SG&A expenses, was $44.8 million in 2005, compared with $36.6 million in 2004. The $8.2 million increase in 2005 shipping and handling expense included a $1.4 million increase due to acquisitions with the remaining $6.8 million or 18.7% of the increase over prior year driven by higher sales volume and transportation costs.

Depreciation and Amortization. Depreciation and amortization increased $0.5 million to $18.6 million in 2005, compared with $18.1 million in 2004. Depreciation and amortization related to acquisitions completed in 2005 was $2.7 million. Depreciation and amortization from operations excluding acquisitions declined by $2.2 million from 2004 amounts as certain assets became fully depreciated.

Income from Operations. Income from operations increased by $59.8 million, or 40%, to $209.3 million in 2005, compared with $149.4 million in 2004. The increase in operating income resulted from higher sales, an increase in gross profit and control over SG&A expenses.

Interest Expense. Interest expense totaled $30.2 million in 2005, compared with $40.8 million in 2004. The decrease was due primarily to redemptions of the 2008 Notes, which occurred in 2005 and to comparatively lower interest rates on the 2017 Notes and our Debentures.

Loss on Debt Extinguishment. Loss on debt extinguishment was $14.9 million in 2005 resulting from charges associated with the redemption of $324 million in aggregate principal amount of 2008 Notes. Loss on debt extinguishment in 2004 was $2.6 million, reflecting redemptions of $55.0 million in aggregate principal amount of 2008 Notes.

Other Expenses. Other expenses increased in 2005 to $13.3 million, compared to $6.6 million in 2004, as a result of higher interest rates and increased borrowing under our Receivables Facility in 2005.

Income Taxes. Our effective income tax rate decreased to 31.4% in 2005, compared with 34.7% in 2004, as a result of tax planning initiatives, which included U.S. tax benefits from foreign operations and U.S. tax credits.

Net Income. Net income and diluted earnings per share on a consolidated basis totaled $103.5 million and $2.10 per share, respectively, in 2005, compared with $64.9 million and $1.47 per share, respectively, in 2004.

Liquidity and Capital Resources

Total assets were approximately $2.8 billion at December 31, 2006, a $1.2 billion increase from December 31, 2005. The increase was principally attributable to the Communications Supply acquisition, as goodwill increased by $389.0 million and intangible assets increased by $63.7 million. Inventories increased by $112.8 million, of which approximately $78.8 million was due to the acquisition. Accounts receivable (trade and securitized), increased by approximately $514.4 million of which $390.5 million is due to the Receivables Facility amendment, which requires on-balance sheet accounting treatment for receivables sold to third parties, $95.3 million was from the acquisition and $28.6 million was due to the increase in sales. Property, plant and equipment increased by approximately $3.9 million primarily as a result of the acquisition, and other assets increased by approximately $7.1 million as a result of issuance costs associated with the 2026 Debentures. Income taxes receivable increased in 2006 by $21.2 million, of which $15.0 million is a result of the acquisition and is payable to the former owners of Communications Supply, and the net change in all other assets was matched by a corresponding change in ending cash. Stockholders equity increased by 55.3% to $763.2 million at December 31, 2006, compared with $491.5 million at December 31, 2005, as a result of net earnings of $217.3 million, $50.8 million related to exercises of stock options, $11.7 million related to stock-based compensation expense and $0.9 million from foreign currency translation adjustments offset by an increase in treasury stock of $9.0 million.

The following table sets forth our outstanding indebtedness:

	As of December 31,	
	2006	**2005**
	(In thousands)	
Revolving credit facility	$ 97,000	$ 29,000
Mortgage financing facility	44,925	48,213
Acquisition related notes:		
Bruckner		20,000
Fastec	3,329	3,329
Other	666	176
Capital leases	3,894	2,839
7.50% Senior Subordinated Notes due 2017	150,000	150,000
2.625% Convertible Senior Debentures due 2025	150,000	150,000
1.75% Convertible Senior Debentures due 2026	300,000	
Accounts Receivable Securitization Facility	390,500	
	1,140,314	403,577
Less current portion	(5,927)	(36,825)
Less short-term debt	(390,500)	(14,500)
	743,887	$352,232

The required annual principal repayments for all indebtedness for the next five years and thereafter, as of December 31, 2006 is set forth in the following table:

(in thousands)

2007	$ 396,745
2008	2,605
2009	2,416
2010	2,171
2011	1,901
Thereafter	734,476
	$ 1,140,314

Our liquidity needs arise from fluctuations in our working capital requirements, capital expenditures and debt service obligations.

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In 2007, we will pay the remaining $3.3 million of an acquisition note payable to the former owners of Fastec. Additionally, we will pay approximately $2.3 million in the aggregate in 2007 related to various acquisition earnout agreements, $1.1 million in deferred acquisition payments and $0.6 million in legal settlements..

In 2007, we anticipate capital expenditures to increase by approximately $2.6 million from 2006 capital expenditures of approximately $18.4 million, with the majority of the spending to occur in our information technology area. Also, we intend to incur costs related to our stock repurchase program (see note 18, Subsequent Event).

Revolving Credit Facility

In November 2006, we amended and restated our revolving credit facility. The amendment and restatement increased the aggregate borrowing capacity from $275 million to $440 million, and includes a letter of credit subfacility of up to $50 million. The Revolving Credit Facility matures in November 2012 and is collateralized by the inventory of WESCO Distribution, the accounts receivable of Communications Supply and its subsidiaries, and the inventory and accounts receivable of WESCO Distribution Canada, L.P. WESCO Distribution s obligations under the Revolving Credit Facility have been guaranteed by WESCO International and by certain of WESCO Distribution s subsidiaries. The Revolving Credit Facility consists of two separate sub-facilities: (i) a U.S. sub-facility with a borrowing limit of up to $375 million and (ii) a Canadian sub-facility with a borrowing limit of up to $65 million.

Availability under the facility is limited to the amount of eligible inventory and eligible accounts receivable and Canadian inventory and receivables applied against certain advance rates. Depending upon the amount of excess availability under the facility, interest is calculated at LIBOR plus a margin that ranges between 1.0% and 1.75% or at the Index Rate (prime rate published by the Wall Street Journal) plus a margin that ranges between (0.25%) and 0.50%. As long as the average daily excess availability for both the preceding and projected succeeding 90-day period is greater than $50 million, we would be permitted to make acquisitions and repurchase outstanding public stock and bonds.

The above permitted transactions would also be allowed if such excess availability is between $25 million and $50 million and our fixed charge coverage ratio, as defined by the revolving credit agreement, is at least 1.25 to 1.0 after taking into consideration the permitted transaction. Additionally, if excess availability under the Revolving Credit Facility is less than $60 million, then we must maintain a fixed charge coverage ratio of 1.1 to 1.0. At December 31, 2006, the interest rate was 7.0%. We were in compliance with all covenants as of December 31, 2006.

During 2006, we borrowed $507.6 million in the aggregate under the Revolving Credit Facility and made repayments in the aggregate amount of $439.6 million. During 2005, aggregate borrowings and repayments were $343 million and $314 million, respectively. At December 31, 2006, we had an outstanding balance under the facility of $97.0 million. We had approximately $326.9 million available under the facility at December 31, 2006, after giving effect to an outstanding letter of credit, as compared to approximately $228.4 million at December 31, 2005.

Mortgage Financing Facility

In 2003, we finalized a mortgage financing facility of $51.0 million, $44.9 million of which was outstanding as of December 31, 2006. Total borrowings under the mortgage financing facility are subject to a 22-year amortization schedule, with a balloon payment due at the end of the 10-year term. The interest rate on borrowings under this facility is fixed at 6.5%.

Bruckner Note Payable

In 2004, we finalized the remaining amount due pursuant to the Bruckner purchase agreement. This resulted in establishing a promissory note in favor of the sellers in the amount of $50 million. In accordance with the terms of the promissory note, we paid $30 million in June 2005 and the remaining $20 million in June 2006.

9.125% Senior Subordinated Notes due 2008

In June 1998 and August 2001, WESCO Distribution, Inc. completed offerings of $300 million and $100 million, respectively, in aggregate principal amount of 9.125% Senior Subordinated Notes due 2008 (the 2008 Notes). The 2008 Notes were issued at an average issue price of 98% of par, and net proceeds received from the sales of the 2008 Notes were approximately $376 million in the aggregate. During 2003 and 2004, we repurchased $21.1 million and $55.3 million, respectively, in aggregate principal amount of 2008 Notes. We recorded a net loss of $2.6 million in 2004 and a net gain of $0.6 million in 2003. We redeemed all of the remaining principal amount of the 2008 Notes during 2005, incurring a charge of $14.9 million. The charge included the payment of a redemption price at 101.521%

of par and the write-off of unamortized original issue discount and debt issue costs.

Interest Rate Swap Agreements

In September 2003, we entered into a $50 million interest rate swap agreement and, in December 2003, we entered into two additional $25 million interest rate swap agreements as a means to hedge our interest rate exposure and maintain certain amounts of variable rate and fixed rate debt. In October 2005, in conjunction with the redemption of the 2008 Notes, we terminated our three interest rate swap agreements, resulting in termination fees of $2.3 million. Upon redemption of the 2008 Notes, the balance of the unamortized gain in the amount of $2.4 million was recognized as income. The net of the termination fees and interest rate swap resulted in income before taxes of $0.1 million in 2005.

7.50% Senior Subordinated Notes due 2017

At December 31, 2006, $150 million in aggregate principal amount of the 2017 Notes were outstanding. The 2017 Notes were issued by WESCO Distribution under an indenture dated as of September 27, 2005, with The Bank of New York, as successor to J.P. Morgan Trust Company, National Association, as trustee, and are unconditionally guaranteed on an unsecured senior basis by WESCO International, Inc. The 2017 Notes accrue interest at the rate of 7.50% per annum and are payable in cash semi-annually in arrears on each April 15 and October 15.

At any time on or after October 15, 2010, WESCO Distribution may redeem all or a part of the 2017 Notes. Between October 15, 2010 and October 14, 2011, WESCO Distribution may redeem all or a part of the 2017 Notes at a redemption price equal to 103.750% of the principal amount. Between October 15, 2011 and October 14, 2012, WESCO Distribution may redeem all or a part of the 2017 Notes at a redemption price equal to 102.500% of the principal amount. On and after October 15, 2013, WESCO Distribution may redeem all or a part of the 2017 Notes at a redemption price equal to 100% of the principal amount.

If WESCO Distribution undergoes a change of control prior to maturity, holders of 2017 Notes will have the right, at their option, to require WESCO Distribution to repurchase for cash some or all of their 2017 Notes at a repurchase price equal to 101% of the principal amount of the 2017 Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date.

2.625% Convertible Senior Debentures due 2025

At December 31, 2006, $150 million in aggregate principal amount of the the 2025 Debentures were outstanding. The 2025 Debentures were issued by WESCO International, Inc. under an indenture dated as of September 27, 2005, with The Bank of New York, as successor to J.P. Morgan Trust Company, National Association, as Trustee, and are unconditionally guaranteed on an unsecured senior subordinated basis by WESCO Distribution. The 2025 Debentures accrue interest at the rate of 2.625% per annum and are payable in cash semi-annually in arrears on each April 15 and October 15. Beginning with the six-month interest period commencing October 15, 2010, we also will pay contingent interest in cash during any six-month interest period in which the trading price of the 2025 Debentures for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the 2025 Debentures. During any interest period when contingent interest shall be payable, the contingent interest payable per $1,000 principal amount of 2025 Debentures will equal 0.25% of the average trading price of $1,000 principal amount of the 2025 Debentures during the five trading days immediately preceding the first day of the applicable six-month interest period. As defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedge Activities*, the contingent interest feature of the 2025 Debentures is an embedded derivate that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at December 31, 2006 or December 31, 2005.

The 2025 Debentures are convertible into cash and, in certain circumstances, shares of the Company s common stock at any time on or after October 15, 2023, or prior to October 15, 2023 in certain circumstances. The 2025 Debentures will be convertible based on an initial conversion rate of 23.8872 shares of common stock per $1,000 principal amount of the 2025 Debentures (equivalent to an initial conversion price of approximately $41.86 per share). The conversion rate and the conversion price may be adjusted under certain circumstances.

At any time on or after October 15, 2010, we may redeem all or part of the 2025 Debentures at a redemption price equal to 100% of the principal amount of the 2025 Debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date. Holders of 2025 Debentures may require us to repurchase all or a portion of their 2025 Debentures on October 15, 2010, October 15, 2015 and

October 15, 2020 at a cash repurchase price equal to 100% of the principal amount of the 2025 Debentures, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date. If we undergo certain fundamental changes, as defined in the indenture governing the 2025 Debentures, prior to maturity, holders of 2025 Debentures will have the right, at their option, to require us to repurchase for cash some or all of their 2025 Debentures at a repurchase price equal to 100% of the principal amount of the 2025 Debentures being repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.

1.75% Convertible Senior Debentures due 2026

On November 2, 2006, WESCO International issued $300 million in aggregate principal amount of the 2026 Debentures. The 2026 Debentures were issued by WESCO International under an indenture dated as of November 2, 2006, with The Bank of New York, as Trustee, and are unconditionally guaranteed on an unsecured senior subordinated basis by WESCO Distribution. The 2026 Debentures accrue interest at the rate of 1.75% per annum and are payable in cash semi-annually in arrears on each May 15 and November 15, commencing May 15, 2007. Beginning with the six-month interest period commencing November 15, 2011, we also will pay contingent interest in cash during any six-month interest period in which the trading price of the 2026 Debentures for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the 2026 Debentures. During any interest period when contingent interest shall be payable, the contingent interest payable per $1,000 principal amount of 2026 Debentures will equal 0.25% of the average trading price of $1,000 principal amount of the 2026 Debentures during the five trading days immediately preceding the first day of the applicable six-month interest period. As defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedge Activities*, the contingent interest feature of the 2026 Debentures is an embedded derivate that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at issuance or at December 31, 2006.

The 2026 Debentures are convertible into cash and, in certain circumstances, shares of the Company s common stock, $0.01 par value, at any time on or after November 15, 2024, or prior to November 15, 2024 in certain circumstances. The 2026 Debentures will be convertible based on an initial conversion rate of 11.3437 shares of common stock per $1,000 principal amount of the 2026 Debentures (equivalent to an initial conversion price of approximately $88.15 per share). The conversion rate and the conversion price may be adjusted under certain circumstances.

At any time on or after November 15, 2011, we may redeem all or a part of the 2026 Debentures at a redemption price equal to 100% of the principal amount of the 2026 Debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date. Holders of 2026 Debentures may require us to repurchase all or a portion of their 2026 Debentures on November 15, 2011, November 15, 2016 and November 15, 2021 at a cash repurchase price equal to 100% of the principal amount of the 2026 Debentures, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date. If we undergo certain fundamental changes, as defined in the indenture governing the 2026 Debentures, prior to maturity, holders of 2026 Debentures will have the right, at their option, to require us to repurchase for cash some or all of their 2026 Debentures at a repurchase price equal to 100% of the principal amount of the 2026 Debentures being repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.

Covenant Compliance

We were in compliance with all relevant covenants contained in our debt agreements as of December 31, 2006.

Cash Flow

An analysis of cash flows for 2006 and 2005 follows:

Operating Activities. Cash provided by operating activities for 2006 totaled $207.1 million, including $6.5 million net cash outflow from our Receivables Facility, compared with $295.1 million of cash generated in 2005, which included a $189.0 million cash inflow from our Receivables Facility. Cash generated in 2006 primarily resulted from net income of $217.3, adjusted for, among other items, depreciation and amortization of $28.7 million of which $11.9 is related to the 2005 and 2006 acquisitions, stock-based compensation of $11.7 million and the reclassification of $35.0 million related to the excess tax benefit from stock-based compensation expense. Additional items generating cash flow in 2006 were prepaids and other current assets of $30.0 million, resulting from increased option exercise activity; accrued payroll and benefit costs of $18.7 million, resulting from recent acquisitions and increases in these related costs; and deferred income taxes of $18.5 million, resulting primarily from the tax benefit related to goodwill and the convertible debentures. Primary uses of cash in 2006 were $27.7 million for investment in inventories, $27.9 million in accounts payable and $11.8 million for receivables resulting from higher sales volume and approximately $8.9 million from other net working capital adjustments. In 2005, primary sources of cash were net income of

$103.5 million, a $95.7 million increase in accounts payable driven by increased purchases due to growth, a $6.7 million increase in accrued payroll and benefit costs reflecting increases in related costs and a $12.4 million increase in prepaid and other related assets, principally driven by tax refunds and reductions in prepaid items. The remaining sources of cash were $28.0 million of non-cash expenses included in net income and $3.7 million from other net working capital items.

Investing Activities. Net cash used by investing activities was $558.0 million in 2006, compared to $291.0 million in 2005. Net cash used by investing activities comprised $540.5 million in acquisition payments, net of cash acquired, primarily for the acquisition of Communications Supply in the amount of $530.1 million, purchase price adjustments of $5.5 million related to the acquisition of Carlton-Bates and earnout payments related to prior acquisitions of $4.9 million. Capital expenditures were $18.4 million in 2006 and $14.2 million in 2005 and were primarily for computer equipment and software, and branch and distribution center facility improvements.

Financing Activities. Cash provided by financing activities in 2006 was $402.1 million, which included $300 million of cash inflow from the issuance of the 2026 Debentures and $507.6 million from borrowings under our revolving credit facility. We also received $6.9 million from employees for the exercise of equity awards. Uses of cash included payments of $439.6 million to reduce our revolving credit facility, $20.0 million payment pursuant to the Bruckner note in June 2006 and $1.3 million for payments on mortgages. We also paid $9.5 million for debt issuance costs, of which $8.0 million relates to our 2026 Debentures. Cash used by financing activities in 2005 was $17.0 million, which included $300 million of cash inflow from the issuance of the 2017 Notes and the 2025 Debentures and $343 million from borrowings under our revolving credit facility. We also received $8.2 million from employees for the exercise of equity awards. Uses of cash included $317.3 million of net principal amount for the redemption of our 2008 Notes, payments of $314 million to reduce our revolving credit facility, a $30.0 million payment pursuant to the Bruckner note in June 2005 and $1.3 million for payments on mortgages. We also paid $9.0 million for debt issuance costs related to our 2017 Notes and the 2025 Debentures.

Contractual Cash Obligations and Other Commercial Commitments

The following summarizes our contractual obligations, including interest, at December 31, 2006 and the effect such obligations are expected to have on liquidity and cash flow in future periods.

	2007	**2008 to 2009**	**2010 to 2011**	**2012 After**	**Total**
			(In millions)		
Contractual cash obligations (including interest):					
Revolving credit facility	$	$	$	$ 97.0	$ 97.0
Mortgage financing facility	4.2	8.4	8.4	40.6	61.6
Non-cancelable operating and capital leases	42.9	63.7	29.9	6.7	143.2
Fastec note	3.6				3.6
Other acquisition notes	.1	.3	.3	.1	.8
Acquisition agreements	3.5	.4	.3		4.2
Legal settlement	.6				.6
Carlton-Bates restructure charges	1.5				1.5
7.50% Senior Subordinated Notes due 2017	11.3	22.5	22.5	216.1	272.4
2.625% Convertible Senior Debentures due 2025	3.9	7.9	7.9	227.9	247.6
1.75% Convertible Senior Debentures due 2026	5.3	10.5	10.5	409.6	435.9
Accounts Receivable Securitization Facility	414.1				414.1
Total contractual cash obligations	$491.0	$113.7	$79.8	$998.0	$1,682.5

Purchase orders for inventory requirements and service contracts are not included in the table above. Generally, our purchase orders and contracts contain clauses allowing for cancellation. We do not have significant agreements to purchase material or goods that would specify minimum order quantities.

Management believes that cash generated from operations, together with amounts available under our revolving credit facility and the Receivables Facility, will be sufficient to meet our working capital, capital expenditures estimated to be $21 million in 2007 and other cash requirements for the foreseeable future. There can be no assurance, however, that this will be or will continue to be the case.

Accounts Receivable Securitization Facility

We maintain a Receivables Facility, which had a total purchase commitment of $400 million as of December 31, 2006. The Receivables Facility has a term of three years and is subject to renewal in May 2008. Under the Receivables Facility, we sell, on a continuous basis, all domestic accounts receivable to WESCO Receivables Corporation, a wholly owned 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 the form of over collateralization, in a portion of the receivables. We have agreed to continue servicing the sold receivables for the financial institution at market rates; accordingly, no servicing asset or liability has been recorded.

As of December 31, 2006 and 2005, accounts receivable eligible for securitization totaled approximately $531.3 million and $525.0 million, respectively, of which the subordinated retained interest was approximately $137.9 million and $126.3 million, respectively. In December 2006, the Receivables Facility was amended such that the Company effectively maintains control of receivables transferred pursuant to the facility; therefore the transfers no longer qualify for sale treatment under SFAS No. 140. Accordingly, the balance sheet as of December 31, 2006 reflects $390.5 million of previously transferred accounts receivable balances that we re-gained control of, as well as assumed borrowings for an equal amount. As of December 31, 2005, $397.0 million of accounts receivable balances were removed from the balance sheet because they qualified for sale treatment under SFAS No. 140.

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Costs associated with the Receivables Facility totaled $22.8 million, $13.3 million and $6.6 million in 2006, 2005 and 2004, respectively. These amounts are recorded as other expenses in the consolidated statements of income and are primarily related to the discount and loss on the sale of accounts receivables, partially offset by related servicing revenue.

The key economic assumptions used to measure the retained interest at the date of the securitization for securitizations completed in 2006 were a discount rate of 6.0% and an estimated life of 1.5 months. At December 31, 2006, an immediate adverse change in the discount rate or estimated life of 10% and 20% would result in a reduction in the fair value of the retained interest of $0.4 million and $0.8 million, respectively. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this example, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another.

Inflation

The rate of inflation, as measured by changes in the consumer price index, did not have a material effect on our sales or operating results during the periods presented. However, inflation in the future could affect our operating costs. Overall, price changes from suppliers have historically been consistent with inflation and have not had a material impact on the results of operations. In recent years, prices of certain commodities have increased much faster than inflation. In most cases we have been able to pass through a majority of these increases to customers.

Seasonality

Our operating results are not significantly affected by seasonal factors. Sales during the first quarter are generally less than 2% below the sales of the remaining three quarters due to a reduced level of activity during the winter months of January and February. Sales increase beginning in March with slight fluctuations per month through December.

Impact of Recently Issued Accounting Standards

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, we will adopt SFAS 156 on January 1, 2007. We do not anticipate that the adoption of SFAS 156 will have a material impact on our financial position, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. On January 17, 2007, the FASB affirmed its previous decision to make FIN 48 effective for fiscal years beginning after December 15, 2006. Accordingly, FIN 48 is effective for us on January 1, 2007. The initial impact to the consolidated balance sheet is expected to be between $4.5 million and $5.5 million.

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 September 2006, the SEC released Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provided the Staff s view regarding the process of quantifying financial statement misstatements. SAB 108 requires an analysis of misstatements using both an income statement (rollover) approach and balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. The evaluation requirements of SAB No. 108 are effective for years ending after November 15, 2006. The adoption of SAB No. 108 will not impact our consolidated financial statements.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risks.

Foreign Currency Risks

Approximately 90% of our sales are denominated in U.S. dollars and are primarily from customers in the United States. As a result, currency fluctuations are currently not material to our operating results. We do have foreign subsidiaries located in North America, Europe and Asia and may establish additional foreign subsidiaries in the future. Accordingly, we may derive a more significant portion of our sales from international operations, and a portion of these sales may be denominated in foreign currencies. As a result, our future operating results could become subject to fluctuations in the exchange rates of those currencies in relation to the U.S. dollar. Furthermore, to the extent that we engage in international sales denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. We have monitored and will continue to monitor our exposure to currency fluctuations.

Interest Rate Risk

At various times, we have refinanced our fixed rate debt to better leverage the impact of interest rate fluctuations. The majority of our debt portfolio is comprised of fixed rate debt in order to mitigate the impact of fluctuations in interest rates. Our variable rate borrowings at December 31, 2006 and 2005 of $487.5 million, which includes $390.5 million from the Receivables Facility, and $29.0 million, respectively, represented approximately 43% and 7% of total indebtedness at December 31, 2006 and 2005, respectively.

Fixed Rate Borrowings: In 2005, we reduced our borrowing rate on a major portion of our fixed-rate debt, redeeming $323.5 million in aggregate principal amount of our 2008 Notes at 9.125%, and issuing $150 million aggregate principal amount of our 2017 Notes at 7.5% and $150 million aggregate principal amount of our 2025 Debentures at 2.625%. In 2006, we issued additional lower-cost debt which includes $300 million aggregate principal amount of 2026 Debentures at 1.75%. As these borrowings were issued at fixed rates, interest expense would not be impacted by interest rate fluctuations, although market value would be. Except for the 2025 Debentures, fair value approximated carrying value of these debt instruments (see note 8, Debt). Interest expense on our other fixed rate debt also was not impacted due to changes in market interest rates, and fair value approximated carrying value for this debt as well.

Floating Rate Borrowings: We borrow under our revolving credit facility for general corporate purposes, including working capital requirements and capital expenditures. During 2006, our average daily borrowing under the facility was $24.1 million. Borrowings under our facility bear interest at the applicable LIBOR or base rate, as defined, and therefore we are subject to fluctuations in interest rates. Additionally, we borrow under our Receivables Facility, which bears interest at the 30 day commercial paper rate plus applicable margin.

Item 8. Financial Statements and Supplementary Data.

The information required by this item is set forth in our Consolidated Financial Statements contained in this Annual Report on Form 10-K. Specific financial statements can be found at the pages listed below:

WESCO International, Inc.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of WESCO International, Inc.

We have completed integrated audits of WESCO International, Inc. s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of WESCO International, Inc. and its subsidiaries (the Company) at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of WESCO International, Inc. s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, WESCO International, Inc. changed the manner in which it accounts for stock-based compensation as of January 1, 2006.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9a., that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal *Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management s Report on Internal Control Over Financial Reporting, management has excluded Communications Supply Holdings, Inc. from its assessment of internal control over financial reporting as of December 31, 2006 because it was acquired by the Company in a purchase business combination during 2006. We have also excluded Communications Supply Holdings, Inc. from our audit of internal control over financial reporting. Communications Supply Holdings, inc. is a wholly-owned subsidiary whose total assets and total revenues represent $729.8 million and $95.6 million, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 1, 2007

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
	(Dollars in thousands, except share data)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 73,395	$ 22,125
Trade accounts receivable, net of allowance for doubtful accounts of $12,641 and $12,609 in 2006 and 2005, respectively **(Note 4)**	829,962	315,594
Other accounts receivable	43,011	36,235
Inventories, net	613,569	500,798
Current deferred income taxes **(Note 10)**	14,991	13,399
Income taxes receivable	34,016	12,814
Prepaid expenses and other current assets	9,068	7,898
Total current assets	1,618,012	908,863
Property, buildings and equipment, net **(Note 7)**	107,016	103,083
Intangible assets, net **(Note 3)**	147,550	83,892
Goodwill **(Note 3)**	931,229	542,217
Other assets	20,176	13,104
Total assets	$2,823,983	$1,651,159
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 590,304	$ 572,467
Accrued payroll and benefit costs **(Note 12)**	69,945	51,220
Short-term debt **(Note 8)**	390,500	14,500
Current portion of long-term debt **(Note 8)**	5,927	36,825
Deferred acquisition payable **(Note 5)**	3,453	2,680
Bank overdrafts	27,833	3,695
Other current liabilities	65,710	38,499
Total current liabilities	1,153,672	719,886
Long-term debt **(Note 8)**	743,887	352,232
Long-term deferred acquisition payable **(Note 5)**		4,346
Other noncurrent liabilities	13,520	9,507
Deferred income taxes **(Note 10)**	149,677	73,738
Total liabilities	$2,060,756	$1,159,709
Commitments and contingencies **(Note 14)**		
Stockholders Equity (Note 9):		
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, 53,789,918 and 51,790,725 shares issued and 49,545,506 and 47,711,549 shares outstanding in 2006 and 2005, respectively	538	518
Class B nonvoting convertible common stock, $.01 par value; 20,000,000 shares authorized, 4,339,431 shares issued in 2006 and 2005; no shares outstanding in 2006 and 2005	43	43
Additional capital	769,948	707,407
Retained earnings (deficit)	48,988	(168,332)
Treasury stock, at cost; 8,583,843 and 8,418,607 shares in 2006 and 2005, respectively	(70,820)	(61,821)
Accumulated other comprehensive income	14,530	13,635
Total stockholders equity	763,227	491,450
Total liabilities and stockholders equity	$2,823,983	$1,651,159

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31		
	2006	2005	2004
	(In thousands, except share data)		
Net sales	$5,320,603	$4,421,103	$3,741,253
Cost of goods sold (excluding depreciation and amortization below)	4,234,079	3,580,398	3,029,132
Gross profit	1,086,524	840,705	712,121
Selling, general and administrative expenses	692,881	612,780	544,532
Depreciation and amortization	28,660	18,639	18,143
Income from operations	364,983	209,286	149,446
Interest expense, net	24,622	30,183	40,791
Loss on debt extinguishment, net **(Note 8)**		14,914	2,577
Other expenses **(Note 4)**	22,795	13,305	6,580
Income before income taxes	317,566	150,884	99,498
Provision for income taxes **(Note 10)**	100,246	47,358	34,566
Net income	$ 217,320	$ 103,526	$ 64,932
Earnings per share **(Note 11)**			
Basic	$ 4.46	$ 2.20	$ 1.55
Diluted	$ 4.14	$ 2.10	$ 1.47

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Comprehensive Income	Common Stock Amount	Common Stock Shares	Class B Common Stock Amount	Class B Common Stock Shares	Additional Capital	Retained Earnings (Deficit)	Treasury Stock Amount	Treasury Stock Shares	Accumulated Other Income (Loss)
Balance, December 31, 2003		$ 450	44,999,794	$ 43	4,339,431	$ 559,651	$ (336,790)	$ (61,370)	(8,400,499)	$ 5,704
Exercise of stock options, including tax benefit of $5,386		15	1,484,176			13,999		(79)	(7,291)	
Stock-based compensation expense						2,923				
Issuance of common stock, net of capitalized issuance costs		40	4,000,000			99,892				
Net income	$ 64,932						64,932			
Translation adjustment	4,143									4,143
Comprehensive income	$ 69,075									
Balance, December 31, 2004		505	50,483,970	43	4,339,431	676,465	(271,858)	(61,449)	(8,407,790)	9,847
Exercise of stock options, including tax benefit of $13,815		13	1,306,755			22,347		(372)	(10,817)	
Stock-based compensation expense						8,595				
Net income	$ 103,526						103,526			
Translation adjustment	3,788									3,788
Comprehensive income	$ 107,314									

Balance, December 31, 2005		518	51,790,725	43	4,339,431	707,407	(168,332)	(61,821)	(8,418,607)	13,635
Exercise of stock options, including tax benefit of $34,966		20	1,999,193			50,807		(8,999)	(165,236)	
Stock-based compensation expense						11,734				
Net income	$ 217,320						217,320			
Translation adjustment	895									895
Comprehensive income	$ 318,215									
Balance, December 31, 2006		538	53,789,918	43	4,339,431	769,948	48,988	(70,820)	(8,583,843)	14,530

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2006	2005	2004
		(In thousands)	
Operating Activities:			
Net income	$ 217,320	$ 103,526	$ 64,932
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss on debt extinguishment, (net of premium in 2005 of $6,803)		1,446	754
Depreciation and amortization	28,660	18,639	18,143
Accretion and amortization of original issue discounts and purchase discounts, respectively		1,218	2,714
Amortization of gain on interest rate swap		(3,118)	(912)
Stock option expense	11,734	8,595	2,923
Amortization of debt issuance costs	2,520	1,263	1,426
Loss (gain) on sale of property, buildings and equipment	(2,607)	(36)	86
Excess tax benefit from stock-based compensation	(34,966)		
Deferred income taxes	18,523	3,560	2,504
Changes in assets and liabilities:			
Change in receivables facility	(6,500)	189,000	(17,000)
Trade and other account receivables, net	(11,832)	(83,660)	(107,786)
Inventories, net	(27,673)	(60,220)	(63,767)
Prepaid expenses and other current assets	30,030	12,386	12,703
Accounts payable	(27,873)	95,657	85,551
Accrued payroll and benefit costs	18,725	6,700	16,384
Other current and noncurrent liabilities	(8,978)	141	3,289
Net cash provided by operating activities	207,083	295,097	21,944
Investing Activities:			
Capital expenditures	(18,359)	(14,154)	(12,149)
Acquisition payments, net of cash acquired	(540,447)	(278,829)	(34,114)
Proceeds from sale of building	4,624		
Other investing activities	(1,745)	2,014	
Net cash used by investing activities	(555,927,)	(290,969)	(46,263)
Financing Activities:			
Proceeds from issuance of long-term debt	807,604	643,000	357,600
Repayments of long-term debt	(462,918)	(662,641)	(415,005)
Proceeds from issuance of common stock			105,000
Equity issuance costs			(5,068)
Redemption of stock options			(20,144)
Proceeds from interest rate swap			
Debt issuance costs	(9,464)	(9,043)	(112)
Proceeds from exercise of options	6,862	8,173	8,422
Excess tax benefit from stock-based compensation	34,966		
Increase in bank overdrafts	24,138	3,695	

Payments on capital lease obligations	(1,073)	(215)	
Net cash provided (used) by financing activities	400,115	(17,031)	30,693
Effect of exchange rate changes on cash and cash equivalents	(1)	505	654
Net change in cash and cash equivalents	$ 51,270	$ (12,398)	$ 7,028
Cash and cash equivalents at the beginning of period	22,125	34,523	27,495
Cash and cash equivalents at the end of period	73,395	$ 22,125	$ 34,523
Supplemental disclosures:			
Cash paid for interest	$ 44,952	$ 29,606	$ 36,539
Cash paid for taxes	55,139	28,917	18,271
Non-cash investing and financing activities:			
Property, plant and equipment acquired through capital leases	2,144	2,000	857
Deferred acquisition payable related to acquisitions	1,107	5,000	
Note issued in connection with acquisition		3,329	
Conversion of deferred acquisition payable to note			50,000

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

WESCO International, Inc. and its subsidiaries (collectively, WESCO), 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 Consolidation

The consolidated financial statements include the accounts of WESCO International, Inc. (WESCO International) and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on management s best knowledge of current events and actions WESCO may undertake in the future, actual results may ultimately differ from the estimates.

Revenue Recognition

Revenues are recognized for product sales when title, ownership and risk of loss pass to the customer, or for services when the service is rendered or evidence of a customer arrangement exists. In the case of stock sales and special orders, a sale occurs at the time of shipment from our distribution point, as the terms of WESCO s sales are FOB shipping point. In cases where we process customer orders but ship directly from our suppliers, revenue is recognized once product is shipped and title has passed. For some of our customers, we provide services such as inventory management or other specific support. Revenues are recognized upon evidence of fulfillment of the agreed upon services. In all cases, revenue is recognized once the sales price to our customer is fixed or is determinable and WESCO has reasonable assurance as to the collectibility in accordance with Staff Accounting Bulletin No.104.

Gross Profit

Our calculation of gross profit is net sales less cost of goods sold. Cost of goods sold includes our cost of the products sold and allocation of overhead and excludes cost for selling, general and administrative expenses and depreciation and amortization, which are reported separately in the statement of income.

Supplier Volume Rebates

WESCO receives rebates from certain suppliers based on contractual arrangements with such suppliers. An asset, included within other accounts receivable on the balance sheet, represents the estimated amounts due to WESCO under the rebate provisions of such contracts. The corresponding rebate income is recorded as a reduction of cost of goods sold. The appropriate level of such income is derived from the level of actual purchases made by WESCO from suppliers, in accordance with the provisions of Emerging Issues Task Force (EITF) Issue No. 02-16*, Accounting by a Reseller for Cash Consideration Received from a Vendor*. Receivables under the supplier rebate program are within other accounts receivable and were $35.9 million at December 31, 2006 and $30.6 million at December 31, 2005. The total amount recorded as a reduction to cost of goods sold was $54.1 million, $47.2 million and $44.5 million for 2006, 2005 and 2004, respectively.

Shipping and Handling Costs and Fees

WESCO records the majority of costs and fees associated with transporting its products to customers as a component of selling, general and administrative expenses. These costs totaled $48.9 million, $44.5 million and $36.6 million in 2006, 2005 and 2004, respectively.

The remaining shipping and handling costs relate to costs that are billed to our customers. These costs and the related revenue are included in net sales in the consolidated statements of operations.

Cash Equivalents

Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less when purchased. As of December 31, 2006, cash and cash equivalents were $73.4 million, an increase of $51.3 million from December 31, 2005.

Asset Securitization

WESCO accounts for its Receivables Facility in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140). Prior to December 2006, WESCO accounted for transfers of receivables pursuant to the facility as a sale and removed them from the consolidated balance sheet. Expenses associated with the facility were reported as other expense in the statement of income. SFAS No. 140 also requires retained interests in the transferred assets to be measured by allocating the previous carrying amount between the assets sold and retained interest based on their relative fair values at the date of transfer. WESCO estimates fair value based on the present value of expected future cash flows discounted at a rate commensurate with the risks involved.

In December 2006, the Receivables Facility was amended and restated such that WESCO effectively maintains control of receivables transferred pursuant to the facility; therefore the transfers no longer qualify for sale treatment under SFAS No. 140. As a result, the transferred receivables remain on the balance sheet, and WESCO now recognizes the related secured borrowing. Expenses associated with the Receivables Facility will be reported as interest expense in the statement of income beginning in 2007.

Allowance for Doubtful Accounts

WESCO maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. WESCO has a systematic procedure using estimates based on historical data and reasonable assumptions of collectibility made at the local branch level and on a consolidated corporate basis to calculate the allowance for doubtful accounts. If the financial condition of WESCO s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The allowance for doubtful accounts was $12.6 million at December 31, 2006 and 2005. The total amount recorded as selling, general and administrative expense related to bad debts was $3.8 million, $8.6 million and $5.8 million for 2006, 2005 and 2004, respectively.

Inventories

Inventories primarily consist of merchandise purchased for resale and are stated at the lower of cost or market. Cost is determined principally under the average cost method. WESCO makes provisions for obsolete or slow-moving inventories as necessary to reflect reduction in inventory value. Reserves for excess and obsolete inventories were $23.0 million and $12.5 million at December 31, 2006 and 2005, respectively. The total expense related to excess and obsolete inventories, included in cost of goods sold, was $4.8 million, $4.1 million and $5.5 million for 2006, 2005 and 2004, respectively. WESCO absorbs into the cost of inventory the general and administrative expenses related to inventory such as purchasing, receiving and storage and at December 31, 2006 and 2005 $38.7 million and $30.2 million, respectively, of these costs were included in the ending inventory.

Other Assets

WESCO amortizes deferred financing fees over the term of the various debt instruments. Deferred financing fees in the amount of $9.6 million related to new and amended financing was incurred during the year ending December 31, 2006. As of December 31, 2006 and 2005, the amount of other assets related to unamortized deferred financing fees was $19.7 million and $12.7 million, respectively.

Property, Buildings and Equipment

Property, buildings and equipment are recorded at cost. Depreciation expense is determined using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over either their respective lease terms or their estimated lives, whichever is shorter. Estimated useful lives range from five to forty years for buildings and leasehold improvements and three to ten years for furniture, fixtures and equipment.

Computer software is accounted for in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Capitalized computer software costs are amortized using the straight-line method over the estimated useful life, typically three to five years, and are reported at the lower of unamortized cost or net realizable value.

Expenditures for new facilities and improvements that extend the useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any related gains or losses are recorded and reported as selling, general and administrative expenses.

WESCO assesses its long-lived assets for impairment by periodically reviewing operating performance by branch and respective utilization of real and tangible assets at such sites; and by comparing fair values of real properties against market values of similar properties. Upon closure of any branch, asset usefulness and remaining life are evaluated and any charges taken as appropriate. Of its $107.0 million net book value of property, plant and equipment as of December 31, 2006, of which $5.1 million was the net book value of assets acquired through the Communications Supply Holding, Inc. acquisition in 2006, $63.2 million consists of land, buildings and leasehold improvements and are geographically dispersed among WESCO s 400 branches and seven distribution centers, mitigating the risk of impairment. Approximately $21.8 million of assets consist of computer equipment and capitalized software and are evaluated for use and serviceability relative to carrying value. The remaining fixed assets, mainly of furniture and fixtures, warehousing equipment and transportation equipment, are similarly evaluated for serviceability and use.

Goodwill and Indefinite Life Intangible Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and indefinite life intangible assets are tested for impairment during the fourth quarter of each fiscal year or more frequently if events or circumstances occur indicating that their carrying value may not be recoverable. This process involves estimating fair value using discounted cash flow analyses, which involves considerable management judgment is necessary to estimate discounted future cash flows. Assumptions used for these estimated cash flows were based on a combination of historical results and current internal forecasts. Two primary assumptions were an average long-term revenue growth rate of between 3% and 17% and a discount rate of 10%. Goodwill and indefinite life intangible assets totaled $977.4 million at December 31, 2006 and $560.6 million at December 31, 2005.

Intangible Assets

Intangible assets are capitalized and amortized over 3 to 19 years. A portion of intangible assets related to customer relationships are amortized using an accelerated method whereas all other intangible assets subject to amortization use a straight-line method which reflects the pattern in which the economic benefits of the respective assets are consumed or otherwise used. Intangible assets are tested for impairment if events or circumstances occur indicating that the respective asset might be impaired.

Insurance Programs

WESCO uses commercial insurance for auto, workers compensation, casualty and health claims as a risk-reduction strategy to minimize catastrophic losses. Our strategy involves large deductibles where WESCO must pay all costs up to the deductible amount. WESCO estimates our reserve based on historical incident rates and costs. The assumptions included in developing this accrual include the period of time from incurrence of a claim until the claim is paid by the insurance provider. Presently, this period is estimated to be eight weeks. The total liability related to the insurance programs was $9.5 million at December 31, 2006 and $7.5 million at December 31, 2005.

Income Taxes

Income taxes are accounted for under the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances, if any, are provided when a portion or all of a deferred tax asset may not be realized. WESCO reviews uncertain tax positions and assesses the need and amount of contingency reserves necessary to cover any probable audit adjustments.

Foreign Currency

The local currency is the functional currency for all of WESCO s operations outside the United States. Assets and liabilities of these operations are translated to U.S. dollars at the exchange rate in effect at the end of each period. Income statement accounts are translated at the average exchange rate prevailing during the period. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of other comprehensive income within stockholders equity. Gains and losses from foreign currency transactions are included in net income for the period.

Stock-Based Compensation

The Company s stock-based employee compensation plans are comprised of fixed stock options and stock-settled stock appreciation rights. During the year ended December 31, 2003, WESCO adopted the measurement provisions of SFAS No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*. Stock options awarded prior to 2003 were accounted for under the intrinsic value method (i.e. the difference between the market price on the exercise date and the price paid by the employee to exercise the options) under Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees.*

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, which is consistent with the valuation techniques previously utilized for stock-based awards in footnote disclosures required under SFAS 123. Expected volatilities are based on historical volatility of WESCO s common stock. The expected life of the option or stock settled appreciation right is estimated using historical data pertaining to option exercises and employee terminations. The risk-free rate is based on the U.S. Treasury yields in effect at the time of grant. The forfeiture assumption is based on WESCO s historical employee behavior that is reviewed on an annual basis. No dividends are assumed.

The following table sets forth the weighted average fair values and the assumptions on which the fair values are determined:

	2006	**2005**	**2004**
Risk free interest rate	4.9%	3.0%	3.9%
Expected life	4 years	4 years	6 years
Expected volatility	50%	59%	64%

The weighted average fair value per equity award granted was $30.72, $15.23 and $13.84 for the years ended December 31, 2006, 2005 and 2004, respectively. WESCO recognized $11.7 million (including $0.1 million due to the adoption of SFAS 123R and related to the vesting in 2006 of options granted prior to January 1, 2003), $8.6 and $2.9 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, in 2006, 2005 and 2004, respectively.

For the years ended December 31, 2005 and 2004, WESCO s pro forma net income and earnings per share would have been adjusted to the amounts indicated below to reflect the additional fair value compensation, net of tax, as if the fair-value based method of accounting for stock-based awards had been applied to all outstanding awards:

	Year Ended December 31	
Dollars in thousands, except per share amounts	**2005**	**2004**
Net income reported	$103,526	$64,932
Add: Stock-based compensation expense included in reported net income, net of related tax	5,896	1,900
Deduct: Stock-based employee compensation expense determined under SFAS No. 123 for all awards net of related tax	(6,404)	(2,672)

Pro forma net income	$103,018	$64,160
Earnings per share:		
Basic as reported	$ 2.20	$ 1.55
Basic pro forma	$ 2.19	$ 1.53
Diluted as reported	$ 2.10	$ 1.47
Diluted pro forma	$ 2.09	$ 1.45

Treasury Stock

Common stock purchased for treasury is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock, with cost determined on a weighted average basis.

Fair Value of Financial Instruments

The Company s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities, a revolving line of credit, a mortgage financing facility, notes payable, debentures and other long-term debt. The value of the Company s 2025 Debentures as of December 31, 2006 was $232.3 million based upon market price quotes. The carrying value of our 2017 Notes, 2026 Debentures and other long-term debt, including the mortgage facility, are considered to approximate fair value, based upon market price quotes and market comparisons available for instruments with similar terms and maturities. For all remaining WESCO financial instruments, carrying values are considered to approximate fair value due to their short maturities.

Environmental Expenditures

WESCO has facilities and operations that distribute certain products that must comply with environmental regulations and laws. Expenditures for current operations are expensed or capitalized, as appropriate. Expenditures relating to existing conditions caused by past operations, and that do not contribute to future revenue, are expensed. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated.

Recent Accounting Pronouncements

In March 2006, 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 will adopt SFAS 156 on January 1, 2007. WESCO does not anticipate that the adoption of SFAS 156 will have a material impact on its financial position, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48) which clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. On January 17, 2007, the FASB affirmed its previous decision to make FIN 48 effective for fiscal years beginning after December 15, 2006. Accordingly, FIN 48 is effective for WESCO on January 1, 2007. The initial impact to the consolidated balance sheet is expected to be between $4.5 million and $5.5 million.

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 September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provided the Staff s view regarding the process of quantifying financial statement misstatements. SAB 108 requires an analysis of misstatements using both an income statement (rollover) approach and balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. The evaluation requirements of SAB No. 108 are effective for years ending after November 15, 2006. The adoption of SAB No. 108 will not impact WESCO s consolidated financial statements.

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3. GOODWILL AND INTANGIBLE ASSETS

Goodwill

During the fourth quarter of 2006, WESCO completed its annual impairment review required by SFAS No. 142. Each of WESCO s nine reporting units was tested for impairment by comparing the implied fair value of each reporting unit with its carrying value using discounted cash flow analyses. Assumptions used for these estimated cash flows were based on a combination of historical results and current internal forecasts. No impairment losses were identified as a result of this review.

The changes in the carrying amount of goodwill were as follows:

	Year Ended December 31	
	2006	2005
	(In thousands)	
Beginning balance January 1	$542,217	$401,610
Additions to goodwill for prior acquisitions:		
Avon Electrical Supply, Inc.(1)		5,560
Fastec Industrial Corp. (2)	26	5,396
Carlton-Bates Company (2)	8,000	129,588
Additions to goodwill for acquisitions:		
Communications Supply Holding, Inc.	380,977	
Foreign currency translation	9	63
Ending balance December 31	$931,229	$542,217

(1) Represents $560 thousand paid for this acquisition and $5.0 million of contingent consideration for the final acquisition payment, of which $3.9 million was paid in 2006. Management has estimated the remaining $1.1 million will be paid in 2007 and is reported as deferred acquisition payable.

(2) Represents final purchase price

adjustments and restructuring charges in 2006.

Intangible Assets

The components of intangible assets are as follows:

		December 31, 2006			December 31, 2005		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
				(In thousands)			
Intangible Assets:							
Trademarks	Indefinite	$ 46,200		$ 46,200	$18,400		$18,400
Non-compete agreements	3-5	6,445	$ (4,529)	1,916	4,787	$(3,989)	798
Customer relationships	4-19	76,000	(7,306)	68,694	54,700	(1,462)	53,238
Distribution agreements	5-19	33,500	(2,760)	30,740	12,000	(544)	11,456
		$162,145	$(14,595)	$147,550	$89,887	$(5,995)	$83,892

Amortization expense related to intangible assets totaled $9.2 million, $2.2 million and $0.2 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The following table sets forth the estimated amortization expense for intangibles for the next five years (in thousands):

	Estimated Amortization Expenses
For the year ended December 31,	
2007	$13,308
2008	12,609
2009	12,843
2010	11,901
2011	8,368

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4. ACCOUNTS RECEIVABLE SECURITIZATION FACILITY

WESCO maintains a Receivables Facility that had a total purchase commitment of $400 million as of December 31, 2006. The Receivables Facility has a term of three years and is subject to renewal in May 2008. Under the Receivables Facility, WESCO sells, on a continuous basis, 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 the form of over collateralization, in a portion of the receivables. WESCO has agreed to continue servicing the sold receivables for the financial institution at market rates; accordingly, no servicing asset or liability has been recorded.

As of December 31, 2006 and 2005, accounts receivable eligible for securitization totaled approximately $531.3 million and $525.0 million, respectively, of which the subordinated retained interest was approximately $137.9 million and $126.3 million, respectively. In December 2006, the Receivables Facility was amended and restated such that the Company effectively maintains control of receivables transferred pursuant to the facility; therefore the transfers no longer qualify for sale treatment under SFAS No. 140. Accordingly, the balance sheet as of December 31, 2006 reflects $390.5 million of previously transferred accounts receivable balances that WESCO re-gained control of, as well as assumed borrowings for an equal amount. As of December 31, 2005, $397.0 million of accounts receivable balances were removed from the balance sheet because they qualified for sale treatment under SFAS No. 140.

Costs associated with the Receivables Facility totaled $22.8 million, $13.3 million and $6.6 million in 2006, 2005 and 2004, respectively. These amounts are recorded as other expenses in the consolidated statements of income and are primarily related to the discount and loss on the sale of accounts receivables, partially offset by related servicing revenue.

The key economic assumptions used to measure the retained interest at the date of the securitization for securitizations completed in 2006 were a discount rate of 6.0% and an estimated life of 1.5 months. At December 31, 2006, an immediate adverse change in the discount rate or estimated life of 10% and 20% would result in a reduction in the fair value of the retained interest of $0.4 million and $0.8 million, respectively. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this example, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another.

5. ACQUISITIONS

The following table sets forth the consideration paid for acquisitions:

	Year Ended December 31		
	2006	**2005**	**2004**
		(In thousands)	
Details of acquisitions:			
Fair value of assets acquired	$ 684,005	$331,302	$
Amounts earned under acquisition agreements		5,560	2,811
Fair value of liabilities assumed	(147,784)	(48,673)	
Deferred acquisition payable	(1,107)	(5,000)	
Deferred acquisition payment and note conversion	4,872	1,013	81,303
Note issued to seller		(3,329)	(50,000)
Final purchase price adjustment	5,500		
Cash paid for acquisitions	$ 545,486	$280,873	$ 34,114

Supplemental cash flow disclosure related to acquisitions:

Cash paid for acquisitions	$ 545,486	$280,873	$ 34,114
Less: cash acquired	(5,039)	(2,044)	
Cash paid for acquisitions, net of cash acquired	$ 540,447	$278,829	$ 34,114

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.

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The following summary presents the fair value of the assets acquired and liabilities assumed as of the date of the acquisitions.

	Communications Supply Holdings, Inc. (Preliminary)	Fastec Industrial Corp. (Final)	Carlton-Bates Company (Final)
		(In thousands)	
Assets Acquired			
Cash and equivalents	$ 5,039	$ 281	$ 1,763
Trade accounts receivable	102,582	4,675	37,628
Inventories	84,868	11,944	40,709
Deferred income taxes short-term	7,199		2,128
Other accounts receivable	8,286		840
Prepaid expenses	1,491	161	763
Income taxes receivable	15,925		2,789
Property, buildings and equipment	5,493	2,168	5,159
Intangible assets	71,230	11,134	74,444
Goodwill	380,977	5,422	137,588
Other noncurrent assets	915		
Total assets acquired	684,005	35,785	303,811
Liabilities Assumed			
Accounts payable	45,241	2,663	16,901
Accrued and other current liabilities	37,592	767	9,275
Deferred acquisition payable	1,107		
Restructure reserve			2,661
Deferred income taxes long-term	63,290		19,607
Other noncurrent liabilities	554		136
Total liabilities assumed	147,784	3,430	48,580
Fair value of net assets acquired, including intangible assets	$536,221	$32,355	$255,231

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 million under its Receivables Facility and $102 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.

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 28 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 $71.2 million and goodwill of $381.0 million, of which $11.7 million is deductible for tax purposes. The intangible assets include supplier relationships of $21.5 million amortized over a range of 12 to 19 years, customer relationships of $21.2 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.

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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 twelve months ended December 31, 2006 and 2005 are included below as if the acquisition occurred on the first day of the respective periods. 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 2005, 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.

	Year Ended December 31 2006	Year Ended December 31 2005
	(In thousands, except per share amounts)	
Net sales	$ 5,837,625	$ 4,851,774
Net income	$ 229,664	$ 105,566
Earnings per common share:		
Basic	$ 4.71	$ 2.24
Diluted	$ 4.38	$ 2.14

Acquisition of Carlton-Bates Company

On September 29, 2005, WESCO acquired Carlton-Bates Company (Carlton-Bates), headquartered in Little Rock, Arkansas. The original purchase price was $248.5 million, net of $1.8 million cash acquired, of which $25.0 million of the purchase price was held in escrow to address up to $5.0 million of post-closing adjustments relating to working capital and up to $20.0 million of potential indemnification claims, with all distributions from the escrow to be made by March 2008. Distributions of $2.0 million and $3.0 million were made from the escrow in November 2005 and February 2006, respectively, in accordance with terms set forth in the purchase agreement. During the three months ended March 31, 2006, WESCO completed its evaluation of the calculation of the acquired working capital resulting in an increase in the purchase price in the amount of $5.5 million which amount was paid on April 6, 2006.

Carlton-Bates operates as a traditional branch-based distributor and includes its LADD division, the sole U.S. distributor of engineered connecting devices for the industrial products division of Deutsch Company ECD. Carlton-Bates is a regional distributor of electrical and electronic components with a special emphasis on automation and electromechanical applications for the original equipment manufacturer markets. Carlton-Bates adds additional capabilities for WESCO including additional product categories, additional supplier relationships, kitting and light assembly services for WESCO customers and sales opportunities resulting from value-added services.

The 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 $74.4 million and goodwill of $137.6 million, of which $58.4 million is deductible for tax purposes. The intangible assets include customer relationships of $45.3 million amortized over a range of 13 to 19 years, distribution agreements of $12.0 million and non-compete agreements of $0.2 million, both of which are amortized over five years, and trademarks of $16.9 million. Trademarks have an indefinite life and are not being amortized. No residual value is estimated for these intangible assets.

The operating results of Carlton-Bates have been included in WESCO s consolidated financial statements since September 29, 2005. The following summary of the unaudited pro forma results of operations for the twelve months ended December 31, 2005 is included below as if the acquisition occurred on the first day of 2005 and is not necessarily indicative of what WESCO s results of operations would have been had Carlton-Bates been acquired at the beginning of the period. Seasonality of sales is not a significant factor to the pro forma combined results of operations.

	Year Ended December 31 2005
Dollars in thousands, except per share amounts	

Net sales	$4,643,039
Net income	$ 103,940
Earnings per common share:	
Basic	2.21
Diluted	2.11

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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 ending 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 within one year of the date of acquisition have been recognized as a part of the purchase price allocation. A summary of these charges for the year ending December 31, 2006 is as follows:

Amounts in thousands	Balance at September 30, 2006	Cash Payments	Balance at December 31, 2006
Termination Benefits	$ 180	$ 156	$ 24
Cost of closing redundant facilities	1,650	258	1,392
Other	831	727	104
Total	$ 2,661	$ 1,141	$ 1,520

Acquisition of Fastec Industrial Corp.

On July 29, 2005, WESCO acquired the assets and business of Fastec Industrial Corp. (Fastec). Fastec is a nationwide importer and distributor of industrial fasteners, cabinet and locking and latching products. WESCO paid $28.7 million net of $0.3 million cash acquired, and issued a $3.0 million promissory note to consummate this acquisition. In accordance with the terms of the purchase, a net working capital valuation was performed subsequent to the closing date of the acquisition resulting in an increase to the purchase price and the note payable in the amount of $0.3 million.

The purchase price allocation resulted in intangible assets of $11.1 million and goodwill of $5.4 million, which is expected to be fully deductible for tax purposes. The intangible assets include customer relationships of $9.4 million, trademarks of $1.5 million and non-compete agreements of $0.2 million. Trademarks have an indefinite life and are not being amortized. Non-compete agreements are being amortized over 5 years and customer relationships over 15 years. The intangible assets were valued by an independent appraiser. No residual value is estimated for the intangible assets.

The operating results of Fastec have been included in WESCO s operating results since July 29, 2005. Pro forma comparative results of WESCO, assuming the acquisition of Fastec had been made at the beginning of fiscal 2005, would not have been materially different from the reported results or the pro forma results presented above.

Acquisition of Bruckner Supply Company, Inc.

In 1998, WESCO acquired substantially all the assets and assumed substantially all liabilities and obligations relating to the operations of Bruckner Supply Company, Inc. (Bruckner). The terms of the purchase agreement provide for additional contingent consideration to be paid based on achieving certain earnings targets. The amount of earnout proceeds payable in any single year subsequent to achieving the earnings target is capped under this agreement at $30 million per year. As a result of Bruckner s performance in 2003, WESCO recorded a liability of $80 million as of December 31, 2003 for contingent consideration relating to the Bruckner agreement. In June 2004, WESCO paid $30 million pursuant to this agreement, and the remaining $50 million, including interest at a fixed rate of 10% due under the agreement, was converted into a note payable. In accordance with the terms of the promissory note, WESCO paid $30 million in June 2005, and the remaining $20 million in June 2006. No additional amounts can be paid under this agreement.

Other Acquisition

Another previously completed acquisition agreement contains contingent consideration for the final acquisition payment which management has estimated will be $5.0 million. During the three months ended June 30, 2006, $3.9 million were paid, with the estimated remaining $1.1 million to be paid during 2007, and this amount is reported as deferred acquisition payable.

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6. CONCENTRATIONS OF CREDIT RISK AND SIGNIFICANT SUPPLIERS

WESCO distributes its products and services and extends credit to a large number of customers in the industrial, construction, utility and manufactured structures markets. In addition, WESCO s largest supplier accounted for approximately 12% of WESCO s purchases for each of the three years, 2006, 2005 and 2004, and therefore, WESCO could potentially incur risk due to supplier concentration. Based upon WESCO s broad customer base, the Company has concluded that it has no credit risk due to customer concentration.

7. PROPERTY, BUILDINGS AND EQUIPMENT

The following table sets forth the components of property, buildings and equipment:

	December 31,	
	2006	**2005**
	(in thousands)	
Buildings and leasehold improvements	$ 73,382	$ 74,969
Furniture, fixtures and equipment	117,214	122,933
Software costs	44,566	42,968
	235,162	240,870
Accumulated depreciation and amortization	(149,327)	(159,686)
	85,835	81,184
Land	19,053	19,371
Construction in progress	2,128	2,528
	$ 107,016	$ 103,083

Depreciation expense was $15.7 million, $14.5 million and $12.7 million, and capitalized software amortization was $3.8 million, $4.1 million and $5.4 million, in 2006, 2005 and 2004, respectively. The unamortized software cost was $7.9 million and $6.5 million as of December 31, 2006 and 2005, respectively. Furniture, fixtures and equipment include capitalized leases of $3.7 million and $2.6 million and related accumulated amortization of $0.5 million and $0.4 million as of December 31, 2006 and 2005, respectively.

8. DEBT

The following table sets forth WESCO s outstanding indebtedness:

	December 31,	
	2006	**2005**
	(In thousands)	
Revolving credit facility	$ 97,000	$ 29,000
Mortgage financing facility	44,925	48,213
Acquisition related notes:		
Bruckner		20,000
Fastec	3,329	3,329
Other	666	176
Capital leases	3,894	2,839
7.50% Senior Subordinated Notes due 2017	150,000	150,000
2.625% Convertible Senior Debentures due 2025	150,000	150,000
1.75% Convertible Senior Debentures due 2026	300,000	
Accounts Receivable Securitization Facility	390,500	
	1,140,314	403,557

Less current portion	(5,927)	(36,825)
Less short-term debt	(390,500)	(14,500)
	$ 743,887	$352,232

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Revolving Credit Facility

In November 2006, WESCO Distribution amended and restated its revolving credit facility. The amendment and restatement increased the aggregate borrowing capacity from $275 million to $440 million and includes a letter of credit subfacility of up to $50 million. The Revolving Credit Facility matures in November 2012 and is collateralized by the inventory of WESCO Distribution, the accounts receivable of Communications Supply and its subsidiaries, and the inventory and accounts receivable of WESCO Distribution Canada, LP. WESCO Distribution s obligations under the Revolving Credit Facility have been guaranteed by WESCO International and by certain of WESCO Distribution s subsidiaries. The Revolving Credit Facility consists of two separate sub-facilities: (i) a U.S. sub-facility with a borrowing limit of up to $375 million and (ii) a Canadian sub-facility with a borrowing limit of up to $65 million.

Availability under the facility is limited to the amount of eligible inventory and eligible accounts receivable and Canadian inventory and receivables applied against certain advance rates. Depending upon the amount of excess availability under the facility, interest is calculated at LIBOR plus a margin that ranges between 1.0% and 1.75% or at the Index Rate (prime rate published by the Wall Street Journal) plus a margin that ranges between (0.25%) and 0.50%. As long as the average daily excess availability for both the preceding and projected succeeding 90-day period is greater than $50 million, WESCO would be permitted to make acquisitions and repurchase outstanding public stock and bonds.

The above permitted transactions would also be allowed if such excess availability is between $25 million and $50 million and WESCO s fixed charge coverage ratio, as defined by the revolving credit agreement, is at least 1.25 to 1.0 after taking into consideration the permitted transaction. Additionally, if excess availability under the revolving credit facility is less than $60 million, then WESCO must maintain a fixed charge coverage ratio of 1.1 to 1.0. At December 31, 2006, the interest rate was 7.0%. WESCO was in compliance with all covenants as of December 31, 2006.

During 2006, WESCO borrowed $507.6 million in the aggregate under the Revolving Credit Facility and made repayments in the aggregate amount of $439.6 million. During 2005, aggregate borrowings and repayments were $343 million and $314 million, respectively. At December 31, 2006, WESCO had an outstanding balance under the facility of $97.0 million. WESCO had approximately $326.9 million available under the facility at December 31, 2006, after giving effect to an outstanding letter of credit, as compared to approximately $228.4 million at December 31, 2005.

Mortgage Financing Facility

In February 2003, WESCO finalized a mortgage financing facility of $51 million, $44.9 million of which was outstanding as of December 31, 2006. Total borrowings under the mortgage financing facility are subject to a 22-year amortization schedule, with a balloon payment due at the end of the 10-year term. The interest rate on borrowings under this facility is fixed at 6.5%. Proceeds from the borrowings were used primarily to reduce outstanding borrowings under WESCO s revolving credit facility.

Bruckner Note Payable

In 2004, WESCO finalized the remaining amount pursuant to the Bruckner purchase agreement. This resulted in establishing a promissory note in favor of the sellers of $50 million. In accordance with the terms of the promissory note, WESCO paid $30 million in June 2005 and the remaining $20 million in June 2006.

9.125% Senior Subordinated Notes due 2008

In June 1998 and August 2001, WESCO Distribution, Inc. completed offerings of $300 million and $100 million, respectively, in aggregate principal amount of 9.125% Senior Subordinated Notes due 2008 (the 2008 Notes). The 2008 Notes were issued at an average issue price of 98% of par, and net proceeds received from the sales of the 2008 Notes were approximately $376 million in the aggregate. During 2003 and 2004, we repurchased $21.1 million and $55.3 million, respectively, in aggregate principal amount of 2008 Notes. We recorded a net loss of $2.6 million in 2004 and a net gain of $0.6 million in 2003. We redeemed all of the remaining principal amount of the 2008 Notes during 2005, incurring a charge of $14.9 million. The charge included the payment of a redemption price at 101.521% of par and the write-off of unamortized original issue discount and debt issue costs.

Interest Rate Swap Agreements

In September 2003, WESCO entered into a $50 million interest rate swap agreement and, in December 2003, WESCO entered into two additional $25 million interest rate swap agreements as a means to hedge its interest rate exposure and maintain certain amounts of variable rate and fixed rate debt. In October 2005, in conjunction with the redemption of the 2008 Notes, WESCO terminated its three interest rate swap agreements, resulting in termination fees of $2.3 million. Upon redemption of the 2008 Notes, the balance of the unamortized gain in the amount of $2.4 million was recognized as income. The net of the termination fees and interest rate swap resulted in income before taxes of $0.1 million in 2005.

7.50% Senior Subordinated Notes due 2017

At December 31, 2006, $150 million in aggregate principal amount of the 7.50% Senior Subordinated Notes due 2017 (the 2017 Notes) was outstanding. The 2017 Notes were issued by WESCO Distribution in an indenture dated as of September 27, 2005 with The Bank of New York, as successor to J.P. Morgan Trust Company, National Association, as trustee, and are unconditionally guaranteed on an unsecured basis by WESCO International, Inc. The 2017 Notes accrue interest at the rate of 7.50% per annum and are payable in cash semi-annually in arrears on each April 15 and October 15, commencing April 15, 2006.

At any time on or after October 15, 2010, WESCO Distribution may redeem all or a part of the 2017 Notes. Between October 15, 2010 and October 14, 2011, WESCO Distribution may redeem all or a part of the 2017 Notes at a redemption price equal to 103.750% of the principal amount. Between October 15, 2011 and October 14, 2012, WESCO Distribution may redeem all or a part of the 2017 Notes at a redemption price equal to 102.500% of the principal amount. On and after October 15, 2013, WESCO Distribution may redeem all or a part of the 2017 Notes at a redemption price equal to 100% of the principal amount.

If WESCO Distribution undergoes a change of control prior to maturity, holders of 2017 Notes will have the right, at their option, to require WESCO Distribution to repurchase for cash some or all of their 2017 Notes at a repurchase price equal to 101% of the principal amount of the 2017 Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date.

2.625% Convertible Senior Debentures due 2025

At December 31, 2006, $150 million in aggregate principal amount of 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures) was outstanding. The 2025 Debentures were issued by WESCO International under an indenture dated as of September 27, 2005 with The Bank of New York, as successor to J.P. Morgan Trust Company, National Association, as Trustee, and are unconditionally guaranteed on an unsecured senior subordinated basis by WESCO Distribution. The 2025 Debentures accrue interest at the rate of 2.625% per annum and are payable in cash semi-annually in arrears on each April 15 and October 15, commencing April 15, 2006. Beginning with the six-month interest period commencing October 15, 2010, WESCO also will pay contingent interest in cash during any six-month interest period in which the trading price of the 2025 Debentures for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the 2025 Debentures. During any interest period when contingent interest shall be payable, the contingent interest payable per $1,000 principal amount of 2025 Debentures will equal 0.25% of the average trading price of $1,000 principal amount of the 2025 Debentures during the five trading days immediately preceding the first day of the applicable six-month interest period. As defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedge Activities* the contingent interest feature of the 2025 Debentures is an embedded derivate that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at December 31, 2005 or at December 31, 2006.

The 2025 Debentures are convertible into cash and, in certain circumstances, shares of WESCO International s common stock, $0.1 par value, at any time on or after October 15, 2023, or prior to October 15, 2023 in certain circumstances. The 2025 Debentures will be convertible based on an initial conversion rate of 23.8872 shares of common stock per $1,000 principal amount of the 2025 Debentures (equivalent to an initial conversion price of approximately $41.86 per share). The conversion rate and the conversion price may be adjusted under certain circumstances.

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At any time on or after October 15, 2010, WESCO International may redeem all or a part of the 2025 Debentures at a redemption price equal to 100% of the principal amount of the 2025 Debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date. Holders of 2025 Debentures may require WESCO to repurchase all or a portion of their 2025 Debentures on October 15, 2010, October 15, 2015 and October 15, 2020 at a cash repurchase price equal to 100% of the principal amount of the 2025 Debentures, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date. If WESCO International undergoes certain fundamental changes, as defined in the indenture governing the 2025 Debentures, prior to maturity, holders of 2025 Debentures will have the right, at their option, to require WESCO International to repurchase for cash some or all of their 2025 Debentures at a repurchase price equal to 100% of the principal amount of the 2025 Debentures being repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.

1.75% Convertible Senior Debentures due 2026

On November 2, 2006, WESCO International issued $300 million in aggregate principal amount of 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures). The 2026 Debentures were issued by WESCO International under an indenture dated as of November 2, 2006 with The Bank of New York, as Trustee, and are unconditionally guaranteed on an unsecured senior subordinated basis by WESCO Distribution. The 2026 Debentures accrue interest at the rate of 1.75% per annum and are payable in cash semi-annually in arrears on each May 15 and November 15, commencing May 15, 2007. Beginning with the six-month interest period commencing November 15, 2011, we also will pay contingent interest in cash during any six-month interest period in which the trading price of the 2026 Debentures for each of the five trading days ending on the second trading day immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the 2026 Debentures. During any interest period when contingent interest shall be payable, the contingent interest payable per $1,000 principal amount of 2026 Debentures will equal 0.25% of the average trading price of $1,000 principal amount of the 2026 Debentures during the five trading days immediately preceding the first day of the applicable six-month interest period. As defined in SFAS No. 133, Accounting for Derivative Instruments and Hedge Activities, the contingent interest feature of the 2026 Debentures is an embedded derivate that is not considered clearly and closely related to the host contract. The contingent interest component had no significant value at issuance or at December 31, 2006.

The 2026 Debentures are convertible into cash and, in certain circumstances, shares of WESCO International s common stock, $0.01 par value, at any time on or after November 15, 2024, or prior to November 15, 2024 in certain circumstances. The 2026 Debentures will be convertible based on an initial conversion rate of 11.3437 shares of common stock per $1,000 principal amount of the 2026 Debentures (equivalent to an initial conversion price of approximately $88.15 per share). The conversion rate and the conversion price may be adjusted under certain circumstances.

At any time on or after November 15, 2011, we may redeem all or a part of the 2026 Debentures at a redemption price equal to 100% of the principal amount of the 2026 Debentures plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the redemption date. Holders of 2026 Debentures may require us to repurchase all or a portion of their 2026 Debentures on November 15, 2011, November 15, 2016 and November 15, 2021 at a cash repurchase price equal to 100% of the principal amount of the 2026 Debentures, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date. If we undergo certain fundamental changes, as defined in the indenture governing the 2026 Debentures, prior to maturity, holders of 2026 Debentures will have the right, at their option, to require us to repurchase for cash some or all of their 2026 Debentures at a repurchase price equal to 100% of the principal amount of the 2026 Debentures being repurchased, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the repurchase date.

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Covenant Compliance

WESCO was in compliance with all relevant covenants contained in its debt agreements as of December 31, 2006.

The following table sets forth the aggregate principal repayment requirements for all indebtedness for the next five years and thereafter (in thousands):

2007	$ 396,745
2008	2,605
2009	2,416
2010	2,171
2011	1,901
Thereafter	734,476
	$ 1,140,314

WESCO s credit agreements contain various restrictive covenants that, among other things, impose limitations on (i) dividend payments or certain other restricted payments or investments; (ii) the incurrence of additional indebtedness and guarantees or issuance of additional stock; (iii) creation of liens; (iv) mergers, consolidation or sales of substantially all of WESCO s assets; (v) certain transactions among affiliates; (vi) payments by certain subsidiaries to WESCO; and (vii) capital expenditures. In addition, the revolving credit agreement requires WESCO to meet certain fixed charge coverage tests depending on availability.

9. CAPITAL STOCK

Preferred Stock

There are 20 million shares of preferred stock authorized at a par value of $.01 per share. The Board of Directors has the authority, without further action by the stockholders, to issue all authorized preferred shares in one or more series and to fix the number of shares, designations, voting powers, preferences, optional and other special rights and the restrictions or qualifications thereof. The rights, preferences, privileges and powers of each series of preferred stock may differ with respect to dividend rates, liquidation values, voting rights, conversion rights, redemption provisions and other matters.

Common Stock

There are 210 million shares of common stock and 20 million shares of Class B common stock authorized at a par value of $.01 per share. The Class B common stock is identical to the common stock, except for voting and conversion rights. The holders of Class B common stock have no voting rights. With certain exceptions, Class B common stock may be converted, at the option of the holder, into the same number of shares of common stock.

Under the terms of the Revolving Credit Facility, WESCO International is restricted from declaring or paying dividends and as such, at December 31, 2006 and 2005, no dividends had been declared, and therefore no retained earnings were reserved for dividend payments.

In December 2004, WESCO International completed a public offering of 4.0 million shares of its common stock. Certain selling stockholders offered an additional 7.1 million shares of common stock. The net proceeds to WESCO International of approximately $99.9 million after deducting the underwriting discounts and offering expenses were used to repurchase a portion of WESCO Distribution s senior subordinated notes.

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10. INCOME TAXES

The following table sets forth the components of the provision for income taxes:

	Year Ended December 31		
	2006	2005	2004
		(In thousands)	
Current taxes:			
Federal	$ 63,859	$18,141	$28,498
State	11,581	1,699	1,635
Foreign	6,552	6,212	1,929
Total current.	81,992	26,052	32,062
Deferred taxes:			
Federal	16,938	20,734	1,855
State	2,101	2,567	200
Foreign	(785)	(1,995)	449
Total deferred	18,254	21,306	2,504
	$100,246	$47,358	$34,566

The following table sets forth the components of income before income taxes by jurisdiction:

	Year Ended December 31		
	2006	2005	2004
		(In thousands)	
United States	$270,081	$126,037	$86,578
Foreign	47,484	24,786	12,920
	$317,565	$150,823	$99,498

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

	Year Ended December 31		
	2006	2005	2004
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax benefit	2.8	1.8	1.2
Nondeductible expenses	0.4	0.7	1.0
Domestic tax benefit from foreign operations	(3.2)	(3.1)	(0.4)
Foreign tax rate differences[1]	(3.3)	(3.3)	(2.3)
Section 965 dividend[2]		0.7	
Federal tax credits and manufacturing deduction[3]	(0.1)	(0.8)	
Other		0.4	0.2
	31.6%	31.4%	34.7%

(1)

Includes tax benefit of $10.0 million, $5.1 million and $1.3 million in 2006, 2005 and 2004 respectively from recapitalization of WESCO s Canadian operations.

(2) The Jobs Act was established on October 22, 2004. One provision of the Jobs Act effectively reduces the tax rate on qualifying repatriation of earnings held by foreign-based subsidiaries to approximately 5.25 percent. Normally, such repatriations would be taxed at a rate of 35 percent. In the fourth quarter of 2005, WESCO elected to repatriate approximately $23.0 million under the Jobs Act. This repatriation of earnings triggered a U.S. federal tax payment of approximately $1.0 million. This amount is

reflected in the current income tax expense. Prior to the Jobs Act, WESCO did not provide deferred taxes on undistributed earnings of foreign subsidiaries as WESCO intended to utilize these earnings through expansion of its business operations outside the United States for an indefinite period of time.

(3) Represents a benefit of \$0.4 million in 2006 from a Domestic Production deduction, and a benefit of \$1.2 million in 2005 from Research and Development credits.

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As of December 31, 2006 and 2005, WESCO had state tax benefits derived from net operating loss carryforwards of approximately $13.1 million ($8.5 million, net of federal income tax) and $15.7 million ($10.2 million, net of federal income tax), respectively. The amounts will begin expiring in 2007. The realization of these state deferred tax assets is dependent upon future earnings, if any, and the timing and amount are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. Utilization of WESCO s state net operating loss carryforwards is subject to a substantial annual limitation imposed by state statute. Such an annual limitation could result in the expiration of the net operating loss and tax credit carryforwards before utilization.

As of December 31, 2006, WESCO had approximately $31.7 million of undistributed earnings related to its foreign subsidiaries. Management believes that these earnings will be indefinitely reinvested in foreign jurisdiction; accordingly, WESCO has not provided for U.S. federal income taxes related to these earnings.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. On January 17, 2007, the FASB affirmed its previous decision to make FIN 48 effective for fiscal years beginning after December 15, 2006. Accordingly, FIN 48 is effective for WESCO on January 1, 2007. The initial impact to the consolidated balance sheet is expected to be between $4.5 million and $5.5 million.

The following table sets forth deferred tax assets and liabilities:

	December 31			
	2006		2005	
	(In thousands)			
	Assets	Liabilities	Assets	Liabilities
Accounts receivable	$ 8,962	$	$ 7,504	$
Inventory		269		2,732
Other	13,603	7,305	12,481	3,854
Current deferred tax	22,565	7,574	19,985	6,586
Intangibles		141,168		70,189
Property, buildings and equipment		7,289		3,494
Other	340	1,560		55
Long-term deferred tax	$ 340	$150,017	$	$73,738

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11. 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.

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

	Year Ended December 31		
	2006	2005	2004
	(Dollars in thousands, except share data)		
Net income	$ 217,320	$ 103,526	$ 64,932
Weighted average common shares outstanding used in computing basic earnings per share	48,724,343	47,085,524	41,838,034
Common shares issuable upon exercise of dilutive stock options	2,569,798	2,152,912	2,271,119
Common shares issuable from contingently convertible debentures (see note below for basis of calculation)	1,169,553		
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	52,463,694	49,238,436	44,109,153
Earnings per share			
Basic	$ 4.46	$ 2.20	$ 1.55
Diluted	$ 4.14	$ 2.10	$ 1.47

Stock-settled stock appreciation rights of .1 million, 1.7 million and .9 million at a weighted average exercise price of $68.79, $28.00 and $24.02 per share were outstanding as of December 31, 2006, 2005 and 2004, respectively, were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the years ending December 31, 2006, 2005, and 2004.

Under EITF Issue No. 04-8 *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*, and EITF Issue No. 90-19 *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion*, and because of WESCO s obligation to settle the par value of the 2025 Debentures and 2026 Debentures (collectively, 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 the three-month (first period subsequent to the offering of the 2026 Debentures) or year-to-date periods ending December 31, 2006 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) will 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-and twelve-month periods ending December 31, 2006 were approximately $65 and $62 per share, respectively, 1,169,553 shares underlying the 2025 Debentures were included in the diluted share count. For the year ended December 31, 2006, the effect of the 2025 Debentures on diluted earnings per share was a decrease of $0.1. The 2025 Debentures had no effect on diluted earnings per share for the year ended December 31, 2005, as the average share price did not exceed the conversion price.

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12. EMPLOYEE BENEFIT PLANS

A majority of WESCO s employees are covered by defined contribution retirement savings plans for their service 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 and can be based on WESCO s financial performance. Discretionary employer contributions were made in the amount of $12.8 million, $10.4 million and $8.8 million in 2006, 2005 and 2004, respectively. For the years ended December 31, 2006, 2005 and 2004, WESCO contributed to all such plans $20.6 million, $16.8 million and $15.1 million, respectively, which was charged to expense. Contributions are made in cash to employee retirement savings plan accounts. Employees then have the option to transfer into any of their investment options, including WESCO stock.

13. STOCK-BASED COMPENSATION

Stock Purchase Plans

In connection with the 1998 recapitalization, WESCO established a stock purchase plan (1998 Stock Purchase Plan) under which certain employees may be granted an opportunity to purchase WESCO s common stock. The maximum number of shares available for purchase may not exceed 427,720. There were no shares issued in 2006, 2005 or 2004.

Stock Option Plans

WESCO has sponsored four stock option plans: the 1999 Long-Term Incentive Plan (LTIP), the 1998 Stock Option Plan, the Stock Option Plan for Branch Employees and the 1994 Stock Option Plan. The LTIP was designed to be the successor plan to all prior plans. Outstanding options under prior plans will continue to be governed by their existing terms, which are substantially similar to the LTIP. Any remaining shares reserved for future issuance under the prior plans are available for issuance under the LTIP. The LTIP and predecessor plans are administered by the Compensation Committee of the Board of Directors.

An initial reserve of 6,936,000 shares of common stock has been authorized for issuance under the LTIP. This reserve automatically increases by (i) the number of shares of common stock covered by unexercised options granted under prior plans that are canceled or terminated after the effective date of the LTIP, and (ii) the number of shares of common stock surrendered by employees to pay the exercise price and/or minimum withholding taxes in connection with the exercise of stock options granted under our prior plans. As of December 31, 2006, 4.3 million shares of common stock were reserved under the LTIP for future equity award grants.

Awards granted vest and become exercisable once criteria based on time or financial performance are achieved. If the financial performance criteria are not met, all the awards will vest after nine years and nine months. All awards vest immediately in the event of a change in control. Each award terminates on the tenth anniversary of its grant date unless terminated sooner under certain conditions.

Prior to the adoption of SFAS 123R, WESCO presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123R requires the tax benefits resulting from deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows.

During 2006, WESCO granted 463,132 stock-settled stock appreciation rights, of which 1,000 were cancelled, at an average exercise price of $68.84. None were exercisable at December 31, 2006.

As of December 31, 2006, there was $20.5 million of total unrecognized compensation expense related to non-vested stock-based compensation arrangements for all awards previously made of which approximately $11.8 million is expected to be recognized in 2007, $6.5 million in 2008 and $2.2 million in 2009.

The total intrinsic value of options exercised during the years ended December 31, 2006, and 2005 was $109.9 million and $17.4 million, respectively. The total amount of cash received from the exercise of these options was $15.9 million and $8.5 million, respectively. The tax benefit recorded for tax deductions associated with stock-based compensation plans in 2006 and 2005 was $35.0 million and $13.8 million, respectively, and was recorded as a credit to additional paid-in capital.

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As of December 31, 2006, the intrinsic value of awards exercisable and awards unvested was $27.6 million and $67.6 million, respectively.

The following table sets forth a summary of both stock options and stock appreciation rights and related information for the years indicated:

	2006		2005		2004	
	Awards	Weighted Average Exercise Price	Awards	Weighted Average Exercise Price	Awards	Weighted Average Exercise Price
Beginning of year	6,303,936	$14.02	7,217,473	$10.26	7,654,822	$ 7.64
Granted	467,132	68.84	908,889	31.85	1,105,500	22.55
Exercised	(2,125,913)	11.25	(1,328,954)	7.08	(1,484,176)	5.92
Cancelled	(66,333)		(493,472)	10.52	(58,673)	8.05
End of year	4,578,822	20.78	6,303,936	14.02	7,217,473	10.26
Exercisable at end of year	2,332,360	$11.84	1,805,305	$10.83	2,514,232	$ 8.01

The following table sets forth exercise prices for equity awards outstanding as of December 31, 2006:

Range of exercise price	Awards Outstanding	Awards Exercisable	Weighted Average Remaining Contractual Life
$ 0.00 - $10.00	1,435,439	1,435,439	5.2
$10.00 - $20.00	1,324,375	405,292	2.6
$20.00 - $30.00	575,374	305,543	7.7
$30.00 - $40.00	765,981	181,351	8.5
$40.00 - $50.00	16,471	4,735	8.9
$50.00 - $60.00	2,650	0	9.2
$60.00 - $70.00	458,532	0	9.5
	4,578,822	2,332,360	5.8

14. COMMITMENTS AND CONTINGENCIES

Future minimum rental payments required under operating leases, primarily for real property that have noncancelable lease terms in excess of one year as of December 31, 2006, are as follows*:*

(In thousands)	
2007	$41,159
2008	34,540
2009	26,938
2010	20,094
2011	9,204
Thereafter	6,716

Rental expense for the years ended December 31, 2006, 2005 and 2004 was $38.7 million, $33.2 million and $33.1 million, respectively.

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From time to time, a number of lawsuits and claims have been or may be asserted against WESCO relating to the conduct of its business, including routine litigation relating to commercial and employment matters. The outcomes of litigation cannot be predicted with certainty, and some lawsuits may be determined adversely to WESCO. However, management does not believe that the ultimate outcome is likely to have a material adverse effect on WESCO s financial condition or liquidity, although the resolution in any fiscal quarter of one or more of these matters may have a material adverse effect on WESCO s results of operations for that period.

WESCO is a defendant in a lawsuit in a state court in Florida in which a former supplier alleges that WESCO failed to fulfill its commercial obligations to purchase product and seeks monetary damages in excess of $17 million. WESCO believes that it has meritorious defenses. Neither the outcome nor the monetary impact of this litigation can be predicted at this time. A jury trial is scheduled for April 2007.

On March 3, 2006, Dana Corporation (Dana) and forty of its domestic subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. The Dana petitions applied to its U.S. domestic entities only. Dana represented $48.5 million of WESCO sales in 2005.

As of March 3, 2006, the amount of accounts receivable due WESCO from Dana s U.S. domestic entities was $11.1 million, of which $10.6 million related to 2006 sales. As of June 30, 2006, a reserve in the amount of $2.0 million was maintained by WESCO based on management s evaluation of the collectibility of this balance. In September 2006, in accordance with a court approved settlement, WESCO sold $10.8 million of the $11.1 million Dana accounts receivable, resulting in a loss of $1.7 million. As of December 31, 2006, WESCO had approximately $.3 million of Dana pre-petition accounts receivable remaining, of which approximately half are reserved.

15. SEGMENTS AND RELATED INFORMATION

WESCO provides distribution of product and services through our nine operating segments which have been aggregated as one reportable segment. The sale of electrical products and maintenance repair and operating supplies which represents more than 90% of the consolidated net sales, income from operations and assets for 2006, 2005 and 2004. WESCO has over 250,000 unique product stock keeping units and markets more than 1,000,000 products for customers. It is impractical to disclose net sales by product, major product group or service group. There were no material amounts of sales or transfers among geographic areas and no material amounts of export sales.

The following table sets forth information about WESCO by geographic area:

	Net Sales Year Ended December 31,			**Long-Lived Assets December 31,**		
(In thousands)	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
United States	$4,606,783	$3,829,755	$3,265,280	$1,193,586	$728,329	$488,787
Foreign operations						
Canada	599,244	499,817	394,375	13,177	12,375	11,958
Other foreign	114,576	91,531	81,598	750	1,592	1,194
Subtotal foreign operations	713,820	591,348	475,973	13,927	13,967	13,152
Total U.S. and Foreign	$5,320,603	$4,421,103	$3,741,253	$1,207,513	$742,296	$501,939

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16. OTHER FINANCIAL INFORMATION

WESCO Distribution has issued $150 million in aggregate principal amount of 2017 Notes. The 2017 Notes are fully and unconditionally guaranteed by WESCO International on a subordinated basis to all existing and future senior indebtedness of WESCO International. Pursuant to an Exchange and Registration Rights Agreement with respect to the 2017 Notes and WESCO International s guarantee of the 2017 Notes (the 2017 Notes Guarantee), WESCO International and WESCO Distribution filed a registration statement with the SEC to register an exchange enabling holders of the 2017 Notes to exchange the 2017 Notes and 2017 Notes Guarantee for publicly registered senior subordinated notes, and a similar unconditional guarantee of those notes by WESCO International, with substantially identical terms (except for terms relating to additional interest and transfer restrictions). All of the original $150 million in aggregate principal amount of the 2017 Notes were exchanged in the exchange offer. WESCO International and WESCO Distribution completed the exchange offer on July 12, 2006.

WESCO International has issued $150 million in aggregate principal amount of 2025 Debentures. The 2025 Debentures are fully and unconditionally guaranteed by WESCO Distribution on a senior subordinated basis to all existing and future senior indebtedness of WESCO Distribution. Pursuant to a Registration Rights Agreement with respect to the 2025 Debentures, WESCO Distribution s guarantee of the 2025 Debentures (the 2025 Debentures Guarantee) and the common stock of WESCO International into which the 2025 Debentures are convertible (the 2025 Conversion Shares), WESCO Distribution and WESCO International filed a resale shelf registration statement to register the 2025 Debentures, the 2025 Debentures Guarantee and the 2025 Conversion Shares. The resale shelf registration statement became effective on June 23, 2006.

WESCO International has issued $300 million in aggregate principal amount of 2026 Debentures. The 2026 Debentures are fully and unconditionally guaranteed by WESCO Distribution on a senior subordinated basis to all existing and future senior indebtedness of WESCO Distribution. Pursuant to a Registration Rights Agreement with respect to the 2026 Debentures, WESCO Distribution s guarantee of the 2026 Debentures (the 2026 Debentures Guarantee) and the common stock of WESCO International into which the 2026 Debentures are convertible (the 2026 Conversion Shares), WESCO Distribution and WESCO International agreed to file a shelf registration statement within 210 days after the issue date of the 2026 Debentures to register the 2026 Debentures, the 2026 Debentures Guarantee and the 2026 Conversion Shares. WESCO Distribution and WESCO International agreed to use their reasonable best efforts to cause the registration statement to become effective within 270 days after the issue date of the 2026 Debentures.

Condensed consolidating financial information for WESCO International, WESCO Distribution, Inc. and the non-guarantor subsidiaries is as follows:

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CONDENSED CONSOLIDATING BALANCE SHEETS

December 31, 2006
(In thousands)

	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	$ (2)	$ 27,622	$ 45,775	$	$ 73,395
Trade accounts receivable			829,962		829,962
Inventories		402,082	211,487		613,569
Other current assets		42,242	58,844		101,086
Total current assets	(2)	471,946	1,146,068		1,618,012
Intercompany receivables, net		(1,487,030)	1,559,778	(72,748)	
Property, buildings and equipment, net		34,472	72,544		107,016
Intangible assets, net		11,314	136,236		147,550
Goodwill and other intangibles, net		374,026	557,203		931,229
Investments in affiliates and other noncurrent assets	1,285,977	2,693,146	2,604	(3,961,551)	20,176
Total assets	$1,285,975	$ 2,097,874	$3,474,433	$(4,034,299)	$2,823,983
Accounts payable		434,092	156,212		590,304
Short-term debt			390,500		390,500
Other current liabilities		64,631	108,237		172,868
Total current liabilities		498,723	654,949		1,153,672
Intercompany payables, net	72,748			(72,748)	
Long-term debt	450,000	250,002	43,885		743,887
Other noncurrent liabilities		74,472	88,725		163,197
Stockholders equity	763,227	1,274,677	2,686,874	(3,961,551)	763,227
Total liabilities and stockholders equity	$1,285,975	$ 2,097,874	$3,474,433	$(4,034,299)	$2,823,983

December 31, 2005
(In thousands)

	WESCO International, Inc.	WESCO	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated

		Distribution, Inc.			
Cash and cash equivalents	$	$ 18,088	$ 4,037	$	$ 22,125
Trade accounts receivable			315,594		315,594
Inventories		380,227	120,571		500,798
Other current assets		40,049	50,971	(20,674)	70,346
Total current assets		438,364	491,173	(20,674)	908,863
Intercompany receivables, net		(161,534)	206,253	(44,719)	
Property, buildings and equipment, net		31,712	71,371		103,083
Intangible assets, net		11,140	72,752		83,892
Goodwill and other intangibles, net		374,000	168,217		542,217
Investments in affiliates and other noncurrent assets	686,169	806,818	3,045	(1,482,928)	13,104
Total assets	$686,169	$1,500,500	$1,012,811	$(1,548,321)	$1,651,159
Accounts payable	$	$ 453,101	$ 119,366	$	$ 572,467
Short-term debt		14,500			14,500
Other current liabilities		133,478	20,115	(20,674)	132,919
Total current liabilities		601,079	$ 139,481	(20,674)	$ 719,886
Intercompany payables, net	44,719			(44,719)	
Long-term debt	150,000	154,024	48,208		352,232
Other noncurrent liabilities		63,491	24,100		87,591
Stockholders equity	491,450	681,906	801,022	(1,482,928)	491,450
Total liabilities and stockholders equity	$686,169	$1,500,500	$1,012,811	$(1,548,321)	$1,651,159

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Year Ended December 31, 2006 (In thousands)				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$	$4,096,952	$1,223,651	$	$5,320,603
Cost of goods sold, excluding depreciation and amortization		3,306,356	927,723		4,234,079
Selling, general and administrative expenses	26	536,535	156,320		692,881
Depreciation and amortization		14,597	14,063		28,660
Results of affiliates operations	194,374	102,051		(296,425)	
Interest expense (income), net	(38,552)	34,775	28,399		24,622
Other (income) expense		53,390	(30,595)		22,795
Provision for income taxes	15,580	58,976	25,690		100,246
Net income (loss)	$217,320	$ 194,374	$ 102,051	$(296,425)	$ 217,320

	Year Ended December 31, 2005 (In thousands)				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$	$3,664,618	$756,485	$	$4,421,103
Cost of goods sold, excluding depreciation and amortization		2,983,739	596,659		3,580,398
Selling, general and administrative expenses	7	543,009	69,764		612,780
Depreciation and amortization		15,994	2,645		18,639
Results of affiliates operations	87,431	89,849		(177,280)	
Interest expense (income), net	(25,443)	43,939	11,687		30,183
Loss on debt extinguishment, net		14,914			14,914
Other (income) expense		41,528	(28,223)		13,305
Provision for income taxes	9,341	23,913	14,104		47,358
Net income (loss)	$103,526	$ 87,431	$ 89,849	$(177,280)	$ 103,526

	Year Ended December 31, 2004 (In thousands)				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net sales	$	$3,187,864	$553,389	$	$3,741,253
Cost of goods sold, excluding depreciation and amortization		2,588,682	440,450		3,029,132
Selling, general and administrative expenses	5	470,836	73,691		544,532
Depreciation and amortization		15,057	3,086		18,143
Results of affiliates operations	56,877	37,554		(94,431)	
Interest expense (income), net	(12,396)	52,397	790		40,791
Other (income) expense		26,001	(16,844)		9,157
Provision for income taxes	4,336	15,568	14,662		34,566
Net income (loss)	$ 64,932	$ 56,877	$ 37,554	$ (94,431)	$ 64,932

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006 (In thousands)				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash provided (used) by operating activities	$ (61,824)	$ 221,154	$ 47,753	$	$ 207,083
Investing activities:					
Capital expenditures		(16,730)	(1,629)		(18,359)
Acquisitions		(540,447)			(540,447)
Other		(1,745)	2,592		847
Net cash used by investing activities		(558,922)	963		(557,959)
Financing activities:					
Net borrowings (repayments)	328,209	48,551	(6,977)		369,783
Equity transactions	(258,172)	300,000			41,828
Other	(8,215)	(1,249)			(9,464)
Net cash provided (used) by financing activities	61,822	347,302	(6,977)		402,147
Effect of exchange rate changes on cash and cash equivalents			(1)		(1)
Net change in cash and cash equivalents	(2)	9,534	41,738		51,270
Cash and cash equivalents at beginning of period		18,088	4,037		22,125
Cash and cash equivalents at end of period	$ (2)	$ 27,622	$ 45,775	$	$ 73,395

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005 (In thousands)				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated

Net cash provided (used) by operating activities	$ 38,901	$ 272,483	$ (16,287)	$	$ 295,097
Investing activities:					
Capital expenditures		(13,026)	(1,128)		(14,154)
Acquisitions		(278,829)			(278,829)
Other		2,014			2,014
Net cash used by investing activities		(289,841)	(1,128)		(290,969)
Financing activities:					
Net borrowings (repayments)	(42,975)	24,299	(1,180)		(19,856)
Equity transactions	8,173				8,173
Other	(4,100)	(4,827)	3,579		(5,348)
Net cash provided (used) by financing activities	(38,902)	19,472	2,399		(17,031)
Effect of exchange rate changes on cash and cash equivalents			505		505
Net change in cash and cash equivalents	(1)	2,114	(14,511)		(12,398)
Cash and cash equivalents at beginning of period	1	15,974	18,548		34,523
Cash and cash equivalents at end of period	$	$ 18,088	$ 4,037	$	$ 22,125

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2004 (In thousands)				
	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Net cash (used) provided by operating activities	$ 23,334	$ (10,748)	$ 9,358	$	$ 21,944
Investing activities:					
Capital expenditures		(11,708)	(441)		(12,149)
Acquisitions		(34,114)			(34,114)
Other					0
Net cash used by investing activities		(45,822)	(441)		(46,263)
Financing activities:					
Net borrowings (repayments).	(111,544)	56,235	(2,096)		(57,405)
Equity transactions	88,210				88,210
Other		(112)			(112)
Net cash provided (used) by financing activities	(23,334)	56,123	(2,096)		30,693
Effect of exchange rate changes on cash and cash equivalents			654		654
Net change in cash and cash equivalents		(447)	7,475		7,028
Cash and cash equivalents at beginning of period	1	16,421	11,073		27,495
Cash and cash equivalents at end of period	$ 1	$ 15,974	$ 18,548	$	$ 34,523

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17. SELECTED QUARTERLY FINANCIAL DATA (unaudited)

The following table sets forth selected quarterly financial data for the years ended December 31, 2006 and 2005:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
2006								
Net sales	$1,265,508		$1,335,976		$1,343,066		$1,376,053	
Gross profit	253,105		270,554		275,660		287,205	
Income from operations	76,925		94,728		100,177		93,153	
Income before income taxes	65,473		82,851		89,269		79,973	
Net income	44,450	(A),(C)	55,178	(A),(C)	59,385	(A),(C)	58,307	(A),(B),(C)
Basic earnings per share(I)	0.93		1.13		1.21		1.18	
Diluted earnings per share(J)	0.86		1.05		1.13		1.10	
2005								
Net sales	$ 990,871		$1,062,060		$1,131,449		$1,236,723	
Gross profit	185,182		194,586		208,313		252,624	
Income from operations	38,562		48,915		47,306		74,503	
Income before income taxes	17,371		39,062		37,060		57,391	
Net income	11,344	(D),(E),(H)	27,439	(E),(F),(H)	25,008	(E),(H)	39,735	(D),(E),(F),(G),(H)
Basic earnings per share(I)	0.24		0.58		0.53		0.84	
Diluted earnings per share(J)	0.23		0.56		0.51		0.80	

(A) Income tax benefits from the recapitalization of the Canadian operations for the first, second, third and fourth quarters of 2006 were $2.1 million, $2.2 million, $2.1

million and $3.6 million, respectively. The fourth quarter reflects increased utilization of foreign tax credits.

(B) On November 3, 2006, Communications Supply Holdings, Inc. was acquired and the sales and gross margin resulting from this acquisition for the fourth quarter of 2006 were $95.6 million and $29.7 million, respectively.

(C) Stock option expense for the first, second, third and fourth quarters of 2006 was $2.6 million, $2.5 million, $3.4 million and $3.2 million, respectively.

(D) During the first and fourth quarters of 2005 $123.8 million and $199.7 million, respectively in aggregate principal amount of the 2008 Notes were redeemed at a loss of $10.1 million and $4.8 million, respectively resulting from the payment of the call premium and the write-off of the unamortized original issue discount and debt issue costs.

(E) Income tax benefits from the recapitalization of the Canadian operations for the first, second, third and fourth quarters of 2005 were $0.5 million, $1.1 million, $1.2 million and $2.3 million, respectively.

(F) Income tax benefits from the utilization of research and development credits for the second and fourth quarters of 2005 were $1.0 million and $0.2 million, respectively.

(G) On September 29, 2005, the common stock of Carlton-Bates Company was acquired and the sales and gross margin resulting from this acquisition for the fourth quarter of 2005 were $76.8 million and $21.3 million, respectively.

(H) Stock option expense for the first, second, third and fourth quarters of 2005 was $1.7 million, $1.5 million, $2.5 million and $3.0 million, respectively.

(I) Earnings per share (EPS) in each quarter is computed using the weighted average number of shares outstanding during that quarter while EPS for the full year is computed by taking the average of the weighted average number of shares outstanding each quarter. Thus, the sum of the four quarters EPS may not equal the full-year EPS.

(J) Diluted earnings per share (DEPS) in each quarter is computed using the weighted average number of shares outstanding during that quarter while DEPS for the full year is computed by taking the average of the weighted average number of shares outstanding each quarter. Thus, the sum of the four quarters DEPS may not equal the full-year DEPS.

18. SUBSEQUENT EVENTS

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 purchased 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.

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On February 22, 2007, WESCO Distribution entered into an amendment of its existing Receivables Facility, pursuant to the terms and conditions of the Eighth Amendment to Second Amended and Restated Receivables Purchase Agreement, dated as of February 22, 2007 (the Amendment), by and among WESCO Receivables Corp., WESCO Distribution, the Purchasers and Purchaser Agents party thereto and Wachovia Capital Markets, LLC (as successor to Wachovia Securities, Inc.), as Administrator. 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.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2006. Management has excluded Communications Supply Holdings, Inc. from its assessment of internal control over financial reporting as of December 31, 2006 because it was acquired by the Company in a purchase business combination during 2006. Communications Supply Holdings, Inc is a wholly-owned subsidiary whose total assets and total revenues represent $729.8 million and $95.6 million, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006.

Our management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

During the last fiscal quarter of 2006, there were no changes in the Company s internal control over financial reporting identified in connection with management s evaluation of the effectiveness of the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information set forth under the captions Board of Directors and Executive Officers in our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders is incorporated herein by reference.

Codes of Ethics and Business Conduct

We have adopted a Code of Ethics and Business Conduct (Code of Conduct) that applies to our Directors, officers and employees that is available on our website at www.wesco.com by selecting the Investors tab followed by the Corporate Governance heading. Any amendment or waiver of the Code of Conduct for our officers or Directors will be disclosed promptly at that location on our website.

We also have adopted a Senior Financial Executive Code of Business Ethics and Conduct (Senior Financial Executive Code) that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing these functions. The Senior Financial Executive Code is also available at that same location on our website. We intend to timely disclose any amendment or waiver of the Senior Financial Executive Code on our website and will retain such information on our website as required by applicable SEC rules.

A copy of the Code of Conduct and/or Senior Financial Executive Code may also be obtained upon request by any stockholder, without charge, by writing to us at WESCO International, Inc., 225 West Station Square Drive, Suite 700, Pittsburgh, Pennsylvania 15219, Attention: Corporate Secretary.

The information required by Item 10 that relates to our Directors and executive officers is incorporated by reference from the information appearing under the captions Corporate Governance and Board and Committee Meetings in our definitive Proxy Statement that is to be filed with the SEC pursuant to the Exchange Act within 120 days of the end of our fiscal year on December 31, 2006.

Information included on our website is not a part of this Annual Report on Form 10-K.

Item 11. Executive Compensation.

The information set forth under the captions Executive Compensation and Director Compensation in our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .

The information set forth under the caption Security Ownership in our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders is incorporated herein by reference.

The following table provides information as of December 31, 2006 with respect to the shares of our common stock that may be issued under our existing equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	6,303,936	$ 20.78	4,324,740
Equity compensation plans not approved by security holders			

Total	6,303,936	$ 20.78	4,324,740

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information set forth under the captions Transactions with Related Persons and Corporate Governance in our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information set forth under the caption Independent Registered Public Accounting Firm Fees and Services in our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedule.

The financial statements, financial statement schedule and exhibits listed below are filed as part of this annual report:

(a) *(1)* ***Financial Statements***

The list of financial statements required by this item is set forth in Item 8, Financial Statements and Supplementary Data, and is incorporated herein by reference.

(2) ***Financial Statement Schedule***

Schedule II Valuation and Qualifying Accounts

(b) ***Exhibits***

Exhibit No.	Description of Exhibit	Prior Filing or Sequential Page Number
2.1	Recapitalization Agreement, dated as of March 27, 1998, among Thor Acquisitions L.L.C., WESCO International, Inc. (formerly known as CDW Holding Corporation) and certain security holders of WESCO International, Inc.	Incorporated by reference to Exhibit 2.1 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
3.1	Restated Certificate of Incorporation of WESCO International, Inc.	Incorporated by reference to Exhibit 3.1 to WESCO s Registration Statement on Form S-4 (No. 333-70404)
3.2	By-laws of WESCO International, Inc.	Incorporated by reference to Exhibit 3.2 to WESCO s Registration Statement on Form S-4 (No. 333-70404)
4.1	Indenture, dated as of September 22, 2005, by and among WESCO International, Inc., WESCO Distribution, Inc. and J.P. Morgan Trust Company, National Association, as Trustee.	Incorporated by reference to Exhibit 4.1 to WESCO s Current Report on Form 8-K, dated September 21, 2005
4.2	Form of 2.625% Convertible Senior Debenture due 2025 (included in Exhibit 4.1).	Incorporated by reference to Exhibit 4.3 to WESCO s Current Report on Form 8-K, dated September 21, 2005
4.3	Indenture, dated as of September 22, 2005, by and among WESCO International, Inc., WESCO Distribution, Inc. and J.P. Morgan Trust Company, National Association, as Trustee.	Incorporated by reference to Exhibit 4.4 to WESCO s Current Report on Form 8-K, dated September 21, 2005
4.4	Form of 7.50% Senior Subordinated Note due 2017, (included in Exhibit 4.3).	Incorporated by reference to Exhibit 4.6 to WESCO s Current Report on Form 8-K, dated September 21, 2005

10.1	CDW Holding Corporation Stock Purchase Plan.	Incorporated by reference to Exhibit 10.1 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.2	Form of Stock Subscription Agreement.	Incorporated by reference to Exhibit 10.2 to WESCO s Registration Statement on Form S-4 (No. 333-43225)

Exhibit No.	Description of Exhibit	Prior Filing or Sequential Page Number
10.3	CDW Holding Corporation Stock Option Plan.	Incorporated by reference to Exhibit 10.3 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.4	Amendment to CDW Holding Corporation Stock Option Plan	Incorporated by reference to Exhibit 10.1 to WESCO s Current Report on Form 8-K, dated March 2, 2006
10.5	Form of Stock Option Agreement.	Incorporated by reference to Exhibit 10.4 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.6	Form of Amendment to Stock Option Agreement.	Incorporated by reference to Exhibit 10.2 to WESCO s Current Report on Form 8-K, dated March 2, 2006
10.7	CDW Holding Corporation Stock Option Plan for Branch Employees.	Incorporated by reference to Exhibit 10.5 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.8	Amendment to CDW Holding Corporation Stock Option Plan for Branch Employees.	Incorporated by reference to Exhibit 10.3 to WESCO s Current Report on Form 8-K, dated March 2, 2006
10.9	Form of Branch Stock Option Agreement.	Incorporated by reference to Exhibit 10.6 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.10	Form of Amendment to Branch Stock Option Agreement.	Incorporated by reference to Exhibit 10.4 to WESCO s Current Report on Form 8-K, dated March 2, 2006
10.11	WESCO International, Inc. 1998 Stock Option Plan.	Incorporated by reference to Exhibit 10.1 to WESCO s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998
10.12	Amendment to WESCO International, Inc. 1998 Stock Option Plan.	Incorporated by reference to Exhibit 10.5 to WESCO s Current Report on Form 8-K dated March 2, 2006
10.13	Form of Management Stock Option Agreement.	Incorporated by reference to Exhibit 10.2 to WESCO s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998
10.14	Form of Amendment to Management Stock Option Agreement.	Incorporated by reference to Exhibit 10.6 to WESCO s Current Report on Form 8-K dated

		March 2, 2006
10.15	1999 Deferred Compensation Plan for Non-Employee Directors.	Incorporated by reference to Exhibit 10.22 to WESCO s Annual Report on Form 10-K for the year ended December 31, 1998
10.16	1999 Long-Term Incentive Plan.	Incorporated by reference to Exhibit 10.22 to WESCO s Registration Statement on Form S-1 (No. 333-73299)

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Exhibit No.	Description of Exhibit	Prior Filing or Sequential Page Number
10.17	Office Lease Agreement, dated as of May 24, 1995, by and between Commerce Court Property Holding Trust, as Landlord, and WESCO Distribution, Inc., as Tenant, as amended by First Amendment to Lease, dated as of June 1995 and by Second Amendment to Lease, dated as of December 29, 1995.	Incorporated by reference to Exhibit 10.10 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.18	Lease, dated as of April 1, 1992, by and between The E.T. Hermann and Jane D. Hermann 1978 Living Trust and Westinghouse Electric Corporation, as renewed by the renewal letter, dated as of December 13, 1996, from WESCO Distribution, Inc., as successor in interest to Westinghouse Electric Corporation, to Utah State Retirement Fund, as successor in interest to The E.T. Hermann and Jane D. Hermann 1978 Living Trust.	Incorporated by reference to Exhibit 10.11 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.19	Third Amendment to Lease, dated as of December 22, 2004, by and between US Institutional Real Estate Equities, L.P., as successor in interest to Utah State Retirement Fund and The E.T. Hermann and Jane D. Hermann 1978 Living Trust, and WESCO Distribution, Inc., as successor in interest to Westinghouse Electric Corporation.	Incorporated by reference to Exhibit 10.19 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2005
10.20	Agreement of Lease, dated as of September 3, 1998, by and between Atlantic Construction, Inc., as landlord, and WESCO Distribution-Canada, Inc., as tenant, as renewed by the Renewal Agreement, dated April 14, 2004, by and between Atlantic Construction, Inc., as landlord, and WESCO Distribution-Canada, Inc., as tenant.	Incorporated by reference to Exhibit 10.20 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2005
10.21	Lease dated December 13, 2002 between WESCO Distribution, Inc. and WESCO Real Estate IV, LLC.	Incorporated by reference to Exhibit 10.27 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2002
10.22	Lease Guaranty dated December 13, 2002 by WESCO International, Inc. in favor of WESCO Real Estate IV, LLC.	Incorporated by reference to Exhibit 10.28 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2002
10.23		

	Amended and Restated Registration and Participation Agreement, dated as of June 5, 1998, among WESCO International, Inc. and certain security holders of WESCO International, Inc. named therein.	Incorporated by reference to Exhibit 10.19 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.24	Employment Agreement, dated as of June 5, 1998, between WESCO Distribution, Inc. and Roy W. Haley.	Incorporated by reference to Exhibit 10.20 to WESCO s Registration Statement on Form S-4 (No. 333-43225)
10.25	Employment Agreement, dated as of July 29, 2004, between WESCO International, Inc. and John Engel.	Incorporated by reference to Exhibit 10.1 to WESCO s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004
10.26	Employment Agreement, dated as of December 15, 2005, between WESCO International, Inc. and Stephen A. Van Oss.	Incorporated by reference to Exhibit 10.26 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2005

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Exhibit No.	Description of Exhibit	Prior Filing or Sequential Page Number
10.27	Amended and Restated Credit Agreement, dated as of September 28, 2005, by and among WESCO Distribution, Inc., the other credit parties signatory thereto from time to time, General Electric Capital Corporation, as Agent and U.S. Lender, GECC Capital Markets Group, as Lead Arranger, GE Canada Finance Holding Company, as Canadian Agent and a Canadian Lender, Bank of America, N.A., as Syndication Agent, and The CIT Group/Business Credit, Inc. and Citizens Bank of Pennsylvania, as Co-Documentation Agents.	Incorporated by reference to Exhibit 10.1 to WESCO s Current Report on Form 8-K, September 28, 2005
10.28	Intercreditor Agreement, dated as of March 19, 2002, among PNC Bank, National Association, General Electric Capital Corporation, WESCO Receivables Corp., WESCO Distribution, Inc., Fifth Third Bank, N.A., Mellon Bank, N.A., The Bank of Nova Scotia, Herning Enterprises, Inc. and WESCO Equity Corporation.	Incorporated by reference to Exhibit 10.21 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2001
10.29	Second Amended and Restated Receivables Purchase Agreement dated as of September 2, 2003 among WESCO Receivables Corp., WESCO Distribution, Inc., and the Lenders identified therein.	Incorporated by reference to Exhibit 10.1 to WESCO s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003
10.30	Second Amendment to Second Amended and Restated Receivables Purchase Agreement and Waiver, dated August 31, 2004.	Incorporated by reference to Exhibit 10.4 to WESCO s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004
10.31	Third Amendment to Second Amended and Restated Receivables Purchase Agreement, dated September 23, 2004.	Incorporated by reference to Exhibit 10.5 to WESCO s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004
10.32	Sixth Amendment to Second Amended and Restated Receivables Purchase Agreement, dated October 4, 2005.	Incorporated by reference to Exhibit 10.2 to WESCO s Current Report on Form 8-K, September 28, 2005
10.33	Seventh Amendment to Second Amended and Restated Receivables Purchase Agreement, dated December 29, 2006.	Incorporated by reference to Exhibit 10.1 to WESCO s Current Report on Form 8-K, December 29, 2006
10.34	Eighth Amendment to Second Amended and Restated Receivables Purchase Agreement,	Incorporated by reference to Exhibit 10.1 to WESCO s Current Report on Form 8-K,

	dated February 22, 2007.	February 22, 2007
10.35	Loan Agreement between Bear Stearns Commercial Mortgage, Inc. and WESCO Real Estate IV, LLC, dated December 13, 2002.	Incorporated by reference to Exhibit 10.26 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2002
10.36	Guaranty of Non-Recourse Exceptions Agreement dated December 13, 2002 by WESCO International, Inc. in favor of Bear Stearns Commercial Mortgage, Inc.	Incorporated by reference to Exhibit 10.29 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2002
10.37	Environmental Indemnity Agreement dated December 13, 2002 made by WESCO Real Estate IV, Inc. and WESCO International, Inc. in favor of Bear Stearns Commercial Mortgage, Inc.	Incorporated by reference to Exhibit 10.30 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2002

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Exhibit No.	Description of Exhibit	Prior Filing or Sequential Page Number
10.38	Asset Purchase Agreement, dated as of September 11, 1998, among Bruckner Supply Company, Inc. and WESCO Distribution, Inc.	Incorporated by reference to Exhibit 2.01 to WESCO s Current Report on Form 8-K, dated September 11, 1998
10.39	Amendment dated March 29, 2002 to Asset Purchase Agreement, dated as of September 11, 1998, among Bruckner Supply Company, Inc. and WESCO Distribution, Inc.	Incorporated by reference to Exhibit 10.25 to WESCO s Annual Report on Form 10-K for the year ended December 31, 2002
10.40	Agreement and Plan of Merger, dated August 16, 2005, by and among Carlton-Bates Company, the shareholders of Carlton-Bates Company signatory thereto, the Company Representative (as defined therein), WESCO Distribution, Inc. and C-B WESCO, Inc.	Incorporated by reference to Exhibit 10.3 to WESCO s Current Report on Form 8-K, dated September 28, 2005
10.41	Registration Rights Agreement, dated September 27, 2005, by and among WESCO International, Inc., WESCO Distribution, Inc. and Lehman Brothers Inc. and Goldman Sachs & Co., as representatives of the initial purchasers named therein.	Incorporated by reference to Exhibit 4.2 to WESCO s Current Report on Form 8-K, September 21, 2005
10.42	Exchange and Registration Rights Agreement, dated September 27, 2005, by and among WESCO International, Inc., WESCO Distribution, Inc. and Goldman Sachs & Co. and Lehman Brothers Inc., as representatives of the initial purchasers named therein.	Incorporated by reference to Exhibit 4.5 to WESCO s Current Report on Form 8-K, September 21, 2005
12.1	Statement re computation of ratios.	Filed herewith
13.1	Portions of WESCO s 2006 Annual Report to Shareholders	Filed herewith
21.1	Significant Subsidiaries of WESCO.	Filed herewith
23.1	Consent of PricewaterhouseCoopers LLP.	Filed herewith
23.2	Consent of American Appraisal Associates, Inc.	Filed herewith
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Exchange Act.	Filed herewith

31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) promulgated under the Exchange Act.	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

The registrant hereby agrees to furnish supplementally to the Commission, upon request, a copy of any omitted schedule to any of the agreements contained herein.

Copies of exhibits may be retrieved electronically at the Securities and Exchange Commission s home page at www.sec.gov. Exhibits will also be furnished without charge by writing to Stephen A. Van Oss, Senior Vice President and Chief Financial and Administrative Officer, 225 West Station Square Drive, Suite 700, Pittsburgh, Pennsylvania 15219. Requests may also be directed to (412) 454-2200.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WESCO INTERNATIONAL, INC.

By: /s/ ROY W. HALEY

Name: Roy W. Haley
Title: Chairman of the Board and Chief Executive Officer
Date: March 1, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ROY W. HALEY Roy W. Haley	Chairman and Chief Executive Officer (Principal Executive Officer)	March 1, 2007
/s/ STEPHEN A. VAN OSS Stephen A. Van Oss	Senior Vice President and Chief Financial and Administrative Officer (Principal Financial and Accounting Officer)	March 1, 2007
/s/ JAMES L. SINGLETON James L. Singleton	Director	March 1, 2007
/s/ ROBERT J. TARR, JR. Robert J. Tarr, Jr.	Director	March 1, 2007
/s/ KENNETH L. WAY Kenneth L. Way	Director	March 1, 2007
/s/ GEORGE L. MILES, JR. George L. Miles, Jr.	Director	March 1, 2007
/s/ SANDRA BEACH LIN Sandra Beach Lin	Director	March 1, 2007
/s/ WILLIAM J. VARESCHI	Director	March 1, 2007

William J. Vareschi		
/s/ STEVEN A. RAYMUND	Director	March 1, 2007
Steven A. Raymund		
/s/ LYNN M. UTTER	Director	March 1, 2007
Lynn M. Utter		

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Schedule II Valuation and Qualifying Accounts

	Col. A	Col. B	Col. C (In thousands)	Col. D	Col. E
(in thousands)	Balance at Beginning of Period	Charged to Expense	Charged to Other Accounts(1)	Deductions(2)	Balance at End of Period
Allowance for doubtful accounts:					
Year ended December 31, 2006	$12,609	$3,810	$ 8,971	($12,749)	$12,641
Year ended December 31, 2005	12,481	8,601	$ 1,543	(10,016)	12,609
Year ended December 31, 2004	11,422	5,824		(4,765)	12,481

(1) Represents allowance for doubtful accounts in connection with certain acquisitions and the on-balance sheet treatment of the AR Securitization Facility.

(2) Includes a reduction in the allowance for doubtful accounts due to write-off of accounts receivable.

	Col. A	Col. B	Col. C (In thousands)	Col. D	Col. E
(in thousands)	Balance at Beginning of Period	Charged to Expense	Charged to Other Accounts(1)	Deductions	Balance at End of Period
Inventory reserve:					
Year ended December 31, 2006	$12,466	$3,547	$ 13,506	$(6,541)	$22,978
Year ended December 31, 2005	10,070	4,081	1,840	(3,525)	12,466
Year ended December 31, 2004	9,759	5,500		(5,189)	10,070

(1) Represents inventory

reserves in connection with certain acquisitions.

(2) *Includes a reduction in the inventory reserve due to disposal of inventory.*

	Col. A	**Col. B**	**Col. C (In thousands)**	**Col. D**	**Col. E**
(in thousands)	Balance at Beginning of Period	Charged (benefit) to Expense	Charged to Other Accounts	Deductions	Balance at End of Period
Income tax valuation allowance:					
Year ended December 31, 2006	$15,693	$(2,638)			$13,055
Year ended December 31, 2005	13,439	2,254			15,693
Year ended December 31, 2004	12,845	594			13,439

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