WESCO INTERNATIONAL INC
Form 10-Q
May 06, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2016

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 (State or other jurisdiction of incorporation or organization)	25-1723342 (I.R.S. Employer Identification No.)
225 West Station Square Drive Suite 700 Pittsburgh, Pennsylvania (Address of principal executive offices)	15219 (Zip Code)

(412) 454-2200
(Registrant's telephone number, including area code)

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

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

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

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

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

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

As of May 4, 2016, 42,202,442 shares of common stock, $.01 par value, of the registrant were outstanding.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

Table of Contents

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

The interim financial information required by this item is set forth in the Condensed Consolidated Financial Statements and Notes thereto in this Quarterly Report on Form 10-Q, as follows:

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except share data)
(unaudited)

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$147,834	$160,279
Trade accounts receivable, net of allowance for doubtful accounts of $22,774 and $22,587 in 2016 and 2015, respectively	1,091,504	1,075,257
Other accounts receivable	59,092	81,242
Inventories	844,106	810,067
Current deferred income taxes (Note 2)	—	8,455
Prepaid expenses and other current assets	131,906	122,234
Total current assets	2,274,442	2,257,534
Property, buildings and equipment, net of accumulated depreciation of $249,090 and $243,005 in 2016 and 2015, respectively	167,539	166,739
Intangible assets, net of accumulated amortization of $151,991 and $138,374 in 2016 and 2015, respectively	421,716	403,649
Goodwill	1,762,693	1,681,662
Other assets	64,438	60,142
Total assets	$4,690,828	$4,569,726
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$734,911	$715,519
Accrued payroll and benefit costs	37,413	51,258
Short-term debt	48,251	43,314
Current portion of long-term debt	1,238	1,025
Bank overdrafts	46,135	34,170
Other current liabilities	115,354	102,515
Total current liabilities	983,302	947,801
Long-term debt, net of discount and debt issuance costs of $180,143 and $182,041 in 2016 and 2015, respectively	1,391,227	1,439,062
Deferred income taxes	368,797	364,838
Other noncurrent liabilities	54,020	44,154
Total liabilities	$2,797,346	$2,795,855
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, $.01 par value; 20,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.01 par value; 210,000,000 shares authorized, 58,632,615 and 58,597,380 shares issued and 42,233,706 and 42,173,790 shares outstanding in 2016 and 2015, respectively	586	586
Class B nonvoting convertible common stock, $.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2016 and 2015, respectively	43	43
Additional capital	1,118,869	1,117,421
Retained earnings	1,890,967	1,854,456

Treasury stock, at cost; 20,738,340 and 20,763,021 shares in 2016 and 2015, respectively	(771,760)	(772,679)
Accumulated other comprehensive loss	(340,901)	(423,155)
Total WESCO International, Inc. stockholders' equity	1,897,804	1,776,672
Noncontrolling interests	(4,322)	(2,801)
Total stockholders’ equity	1,893,482	1,773,871
Total liabilities and stockholders’ equity	$4,690,828	$4,569,726

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

3

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)
(In thousands of dollars, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2016	2015
Net sales	$1,775,961	$1,816,330
Cost of goods sold (excluding depreciation and amortization)	1,420,793	1,448,639
Selling, general and administrative expenses	269,286	264,585
Depreciation and amortization	16,374	15,921
Income from operations	69,508	87,185
Interest expense, net	18,829	20,894
Income before income taxes	50,679	66,291
Provision for income taxes	16,145	19,498
Net income	34,534	46,793
Less: Net loss attributable to noncontrolling interests	(1,519)	(238)
Net income attributable to WESCO International, Inc.	$36,053	$47,031
Other comprehensive income (loss):		
Foreign currency translation adjustments	82,270	(113,814)
Post retirement benefit plan adjustment	(16)	—
Comprehensive income (loss) attributable to WESCO International, Inc.	$118,307	$(66,783)
Earnings per share attributable to WESCO International, Inc.		
Basic	$0.85	$1.06
Diluted	$0.77	$0.90

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars)
(unaudited)

	Three Months Ended March 31, 2016	2015
Operating activities:		
Net income	$34,534	$46,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,374	15,921
Deferred income taxes	6,473	7,849
Other operating activities, net	4,717	7,665
Changes in assets and liabilities:		
Trade accounts receivable, net	10,648	9,705
Other accounts receivable	24,863	12,075
Inventories	(17,523)	(13,248)
Prepaid expenses and other assets	(4,597)	21,474
Accounts payable	3,223	20,589
Accrued payroll and benefit costs	(14,532)	(26,635)
Other current and noncurrent liabilities	14,388	(12,132)
Net cash provided by operating activities	78,568	90,056
Investing activities:		
Acquisition payments, net of cash acquired	(50,348)	—
Capital expenditures	(3,608)	(5,026)
Other investing activities	(8,148)	785
Net cash used in investing activities	(62,104)	(4,241)
Financing activities:		
Proceeds from issuance of short-term debt	20,776	49,360
Repayments of short-term debt	(16,645)	(43,958)
Proceeds from issuance of long-term debt	323,220	319,939
Repayments of long-term debt	(373,220)	(344,321)
Repurchases of common stock (Note 6)	(668)	(27,602)
Increase (decrease) in bank overdrafts	11,972	(6,725)
Other financing activities, net	(209)	(484)
Net cash used in financing activities	(34,774)	(53,791)
Effect of exchange rate changes on cash and cash equivalents	5,865	(5,992)
Net change in cash and cash equivalents	(12,445)	26,032
Cash and cash equivalents at the beginning of period	160,279	128,319
Cash and cash equivalents at the end of period	$147,834	$154,351

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

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

1. ORGANIZATION

WESCO International, Inc. and its subsidiaries (collectively, “WESCO” or the "Company"), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical, industrial and communications maintenance, repair and operating (“MRO”) and original equipment manufacturers (“OEM”) products, construction materials, and advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. WESCO serves over 80,000 active customers globally, through approximately 500 full service branches and nine distribution centers located primarily in the United States, Canada and Mexico, with operations in 14 additional countries.

2. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of WESCO have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the “SEC”). The unaudited condensed consolidated financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in WESCO’s 2015 Annual Report on Form 10-K as filed with the SEC on February 22, 2016. The Condensed Consolidated Balance Sheet at December 31, 2015 was derived from the audited Consolidated Financial Statements as of that date, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America.

The unaudited Condensed Consolidated Balance Sheet as of March 31, 2016, the unaudited Condensed Consolidated Statements of Income and Comprehensive Income (Loss) for the three months ended March 31, 2016 and 2015, respectively, and the unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015, respectively, in the opinion of management, have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments necessary for the fair statement of the results of the interim periods presented herein. All adjustments reflected in the unaudited condensed consolidated financial information are of a normal recurring nature unless indicated. The results for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

During the first quarter of 2016, the Company adopted certain accounting pronouncements that were effective beginning this fiscal year. The adoption of such guidance, as described below, resulted in certain reclassifications to amounts previously reported in the Consolidated Balance Sheet at December 31, 2015.

Fair Value of Financial Instruments

The Company measures the fair value of financial assets and liabilities in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, "Fair Value Measurements and Disclosures," which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2 inputs include inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of assets or liabilities.

- Level 3 inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

6

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

At March 31, 2016, the carrying value of WESCO's 6.0% Convertible Senior Debentures due 2029 (the "2029 Debentures") was $178.9 million and the fair value was approximately $663.9 million. At December 31, 2015, the carrying value of WESCO's 2029 Debentures was $177.8 million and the fair value was approximately $514.2 million. The reported carrying amounts of WESCO's other debt instruments approximate their fair values. The Company uses a market approach to fair value all of its debt instruments, utilizing quoted prices in active markets, interest rates and other relevant information generated by market transactions involving similar instruments. Therefore, all of the Company's debt instruments are classified as Level 2 within the valuation hierarchy. For all of the Company's remaining financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities, carrying values are considered to approximate fair value due to the short maturity of these instruments.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, Simplifying the Presentation of Debt Issuance Costs, which simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Company adopted this new guidance on a retrospective basis effective January 1, 2016. Accordingly, the Company reclassified approximately $17.7 million of debt issuance costs from other noncurrent assets to long-term debt in the balance sheet as of December 31, 2015.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This updated guidance removes the requirement to categorize investments for which fair value is measured using the net asset value (NAV) per share practical expedient within the fair value hierarchy. The amendments in this ASU are effective beginning in the first quarter of 2016 and will be applied retrospectively. This updated guidance will impact the Company's defined benefit plan disclosure in its Annual Report on Form 10-K for the fiscal year ending December 31, 2016. Specifically, investments for which fair value is measured using the NAV per share practical expedient will be removed from the fair value hierarchy in all periods presented.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. This ASU simplifies the presentation of deferred income taxes by requiring that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent in the balance sheet. The Company elected to early adopt this ASU on a prospective basis during the first quarter of 2016. The adoption of this ASU did not have a material impact on WESCO's financial position and it had no impact on its results of operations or cash flows.

Recently Issued Accounting Pronouncements

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of Effective Date. The Company previously reported that in May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides a framework for addressing revenue recognition issues and replaces almost all existing revenue recognition guidance in current U.S. generally accepted accounting principles. The core principle of ASU 2014-09 is for companies to recognize revenue for the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The amendments in ASU 2015-14 defer the effective date of the new revenue recognition guidance to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted to the original effective date of December 15, 2016, including interim periods within that reporting period. Management is currently evaluating the future impact of this guidance on WESCO's consolidated financial statements and notes thereto.

In February 2016, the FASB issued ASU 2016-02, Leases, a comprehensive new standard that amends various aspects of existing accounting guidance for leases, including the recognition of a right-of-use asset and a lease liability on the balance sheet and disclosing key information about leasing arrangements. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new leasing standard requires modified retrospective transition, which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. Management is currently evaluating the impact of this new standard on WESCO's consolidated financial statements and notes thereto.

In March 2016 and April 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and ASU 2016-10, Identifying Performance Obligations and Licensing, respectively. The amendments in these ASUs clarify the implementation guidance on principal versus agent considerations and identifying performance obligations, respectively. Neither ASU changed the core principle in the revenue recognition standard outlined above. These

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

ASUs apply to all entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The effective dates and transition requirements for these ASUs are the same as the effective dates and transition requirements of the revenue recognition guidance outlined above. Management is currently evaluating the impact of these ASUs on WESCO's consolidated financial statements and notes thereto.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU affect all entities that issue share-based payment awards to their employees. Management is currently evaluating the impact of this accounting standard on WESCO's consolidated financial statements and notes thereto.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are either not applicable or are not expected to be significant to WESCO's financial position, results of operations or cash flows.

3. ACQUISITIONS

The following table sets forth the consideration paid for acquisitions:

(In thousands of dollars)	Three Months Ended March 31, 2016
Fair value of assets acquired	$ 77,005
Fair value of liabilities assumed	25,005
Cash paid for acquisitions	$ 52,000
Supplemental cash flow disclosure:	
Cash paid for acquisitions	$ 52,000
Less: cash acquired	(1,652)
Cash paid for acquisitions, net of cash acquired	$ 50,348

The fair values of assets acquired and liabilities assumed during the three months ended March 31, 2016 are based upon preliminary calculations and valuations. WESCO's estimates and assumptions for its preliminary purchase price allocation are subject to change as it obtains additional information for its estimates during the respective measurement period (up to one year from the respective acquisition date).

Acquisition of Atlanta Electrical Distributors, LLC

On March 14, 2016, WESCO Distribution, Inc. completed the acquisition of Atlanta Electrical Distributors, LLC ("AED"), an Atlanta-based electrical distributor focused on the construction and MRO markets from five locations in Georgia with approximately $85 million in annual sales. WESCO funded the purchase price paid at closing with borrowings under its revolving credit facility. The purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. In addition to the cash paid at closing, the purchase price includes a contingent payment that may be earned upon the achievement of certain financial performance targets over three consecutive one year periods. The fair value of the contingent consideration was determined using a probability-weighted outcome analysis and Level 3 inputs such as internal forecasts. This amount has been accrued at the maximum potential payout under the terms of the purchase agreement and it is included in the fair value of liabilities assumed as presented above. The preliminary fair value of intangibles was estimated by management and the allocation resulted in intangible assets of $13.7 million and goodwill of $41.1 million. Management believes that the majority of goodwill is deductible for tax purposes.

2015 Acquisitions of Needham Electric Supply Corporation and Hill Country Electric Supply, LP

On October 30, 2015, WESCO Distribution, Inc. completed the acquisition of Needham Electric Supply Corporation, an electrical distributor focused on the commercial construction and lighting national account markets from 24 locations in Massachusetts, New Hampshire and Vermont with approximately $115 million in annual sales. WESCO funded the purchase price paid at closing with cash and borrowings under its Revolving Credit Facility. 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 intangibles was estimated by management and the allocation resulted in intangible assets of $31.0 million and goodwill of $35.7 million.

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

The intangible assets include customer relationships of $24.5 million amortized over 12 and 14 years, and trademarks of $6.5 million amortized over 13 years. No residual value is estimated for the intangible assets being amortized. Management believes that the majority of goodwill is deductible for tax purposes.

On May 1, 2015, WESCO Distribution, Inc. completed the acquisition of Hill Country Electric Supply, LP, an electrical distributor focused on the commercial construction market from nine locations in Central and South Texas with approximately $140 million in annual sales. WESCO funded the purchase price paid at closing with borrowings under its prior revolving credit facility. 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 intangibles was estimated by management and the allocation resulted in intangible assets of $21.1 million and goodwill of $15.8 million. The intangible assets include customer relationships of $13.1 million amortized over 11 years, non-compete agreements of $0.2 million amortized over 5 years, and trademarks of $7.8 million amortized over 12 years. No residual value is estimated for the intangible assets being amortized. Management believes that the majority of goodwill is deductible for tax purposes.

4. GOODWILL

The following table sets forth the changes in the carrying value of goodwill:

	Three Months Ended	
	March 31, 2016	March 31, 2015
	(In thousands)	
Beginning balance January 1	$1,681,662	$1,735,440
Foreign currency exchange rate changes	39,918	(59,859)
Additions to goodwill for acquisitions	41,113	—
Ending balance March 31	$1,762,693	$1,675,581

5. STOCK-BASED COMPENSATION

WESCO's stock-based employee compensation plans are comprised of stock-settled stock appreciation rights, restricted stock units and performance-based awards. Compensation cost for all stock-based awards is measured at fair value on the 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-settled stock appreciation rights and performance-based awards with market conditions is determined using the Black-Scholes and Monte Carlo simulation models, respectively. The fair value of restricted stock units and performance-based awards with performance conditions is determined by the grant-date closing price of WESCO's common stock. The forfeiture assumption is based on WESCO's historical employee behavior that is reviewed on an annual basis. No dividends are assumed.

During the three months ended March 31, 2016 and 2015, WESCO granted the following stock-settled stock appreciation rights, restricted stock units and performance-based awards at the following weighted-average fair values:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Stock-settled stock appreciation rights granted	703,510	394,182
Weighted-average fair value	$12.88	$ 21.68
Restricted stock units granted	143,168	78,292
Weighted-average fair value	$42.44	$ 69.54
Performance-based awards granted	91,768	59,661

Weighted-average fair value	$47.00	$ 67.81

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

The fair value of stock-settled stock appreciation rights was estimated using the following weighted-average assumptions:

	Three Months Ended	
	March 31, 2016	March 31, 2015
Risk free interest rate	1.2 %	1.6 %
Expected life (in years)	5	5
Expected volatility	32 %	32 %

The risk-free interest rate is based on the U.S. Treasury Daily Yield Curve rates as of the grant date. The expected life is based on historical exercise experience and the expected volatility is based on the volatility of the Company's daily stock prices over a five-year period preceding the grant date.

The following table sets forth a summary of stock-settled stock appreciation rights and related information for the three months ended March 31, 2016:

	Awards	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2015	2,567,021	$ 54.47		
Granted	703,510	42.50		
Exercised	—	—		
Forfeited	(5,490)	67.15		
Outstanding at March 31, 2016	3,265,041	51.86	5.5	$ 31,627
Exercisable at March 31, 2016	2,269,315	$ 52.01	3.7	$ 23,021

The following table sets forth a summary of time-based restricted stock units and related information for the three months ended March 31, 2016:

	Awards	Weighted-Average Fair Value
Unvested at December 31, 2015	175,411	$ 74.52
Granted	143,168	42.44
Vested	(50,830)	73.08
Forfeited	(460)	78.05
Unvested at March 31, 2016	267,289	$ 57.78

Performance shares are awards for which the vesting will occur based on market or performance conditions. The following table sets forth a summary of performance-based awards for the three months ended March 31, 2016:

	Awards	Weighted-Average Fair Value
Unvested at December 31, 2015	114,520	$ 76.48
Granted	91,768	47.00
Vested	—	—

Forfeited	(33,774)	78.37
Unvested at March 31, 2016	172,514	$ 60.43

10

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

The fair value of the performance shares granted during the three months ended March 31, 2016 was estimated using the following weighted-average assumptions:

Weighted-Average Assumptions		
Grant date share price	$42.44	
WESCO expected volatility	26.3	%
Peer group median volatility	24.2	%
Risk-free interest rate	0.89	%
Correlation of peer company returns	121.5	%

The unvested performance-based awards in the table above include 86,257 shares in which vesting of the ultimate number of shares is dependent upon WESCO's total stockholder return in relation to the total stockholder return of a select group of peer companies over a three-year period. These awards are accounted for as awards with market conditions; compensation cost is recognized over the service period, regardless of whether the market conditions are achieved and the awards ultimately vest.

Vesting of the remaining 86,257 shares of performance-based awards in the table above is dependent upon the three-year average growth rate of WESCO's net income. These awards are accounted for as awards with performance conditions; compensation cost is recognized over the performance period based upon WESCO's determination of whether it is probable that the performance targets will be achieved.

WESCO recognized $3.6 million and $3.8 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, there was $30.5 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately $11.4 million is expected to be recognized over the remainder of 2016, $11.5 million in 2017, $6.8 million in 2018 and $0.8 million in 2019.

During the three months ended March 31, 2016 and 2015, the total intrinsic value of all awards exercised was $2.2 million and $7.7 million, respectively. The gross deferred tax benefit associated with the exercise of awards for the three months ended March 31, 2016 and 2015 totaled $0.8 million and $2.6 million, respectively, and was recorded as an increase to additional capital.

6. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the periods. Diluted earnings per share is 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 dilutive equity awards and contingently convertible debt.

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

	Three Months Ended March 31,	
(In thousands, except per share data)	2016	2015
Net income attributable to WESCO International, Inc.	$36,053	$47,031
Weighted-average common shares outstanding used in computing basic earnings per share	42,210	44,406
Common shares issuable upon exercise of dilutive equity awards	414	824
Common shares issuable from contingently convertible debentures (see below for basis of calculation)	4,189	6,966
Weighted-average common shares outstanding and common share equivalents used in computing diluted earnings per share	46,813	52,196
Earnings per share attributable to WESCO International, Inc.		

Basic	$0.85	$1.06
Diluted	$0.77	$0.90

11

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

For the three months ended March 31, 2016 and 2015, the computation of diluted earnings per share attributable to WESCO International, Inc. excluded stock-based awards of approximately 2.3 million and 0.9 million, respectively. These amounts were excluded because their effect would have been antidilutive.

Because of WESCO's obligation to settle the par value of the 2029 Debentures in cash upon conversion, WESCO is required to include shares underlying the 2029 Debentures in its diluted weighted-average shares outstanding when the average stock price per share for the period exceeds the conversion price of the debentures. Only the number of shares that would be issuable under the treasury stock method of accounting for share dilution are included, which is based upon the amount by which the average stock price exceeds the conversion price. The conversion price of the 2029 Debentures is $28.87. Share dilution as of March 31, 2016 is limited to a maximum of 11,947,533 shares for the 2029 Debentures. For the three months ended March 31, 2016 and 2015, the effect of the 2029 Debentures on diluted earnings per share attributable to WESCO International, Inc. was a decrease of $0.08 and $0.14, respectively.

In December 2014, the Company's Board of Directors authorized the repurchase of up to $300 million of the Company's common stock through December 31, 2017. During the year ended December 31, 2015, the Company entered into accelerated stock repurchase agreements (the "ASR Transactions") with certain financial institutions to purchase shares of its common stock. In exchange for up-front cash payments totaling $150 million, the Company received 2,468,576 shares, of which 300,651 shares were received during the three months ended March 31, 2015. The total number of shares ultimately delivered under the ASR Transactions was determined by the average of the volume-weighted-average prices of the Company's common stock for each exchange business day during the respective settlement valuation periods. WESCO funded the repurchases with borrowings under its prior revolving credit facility. For purposes of computing earnings per share, share repurchases were reflected as a reduction to common shares outstanding on the respective share delivery dates.

7. EMPLOYEE BENEFIT PLANS

A majority of WESCO's employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO's formation. WESCO also offers a deferred compensation plan for select individuals. 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 3% to 5% of the participant's eligible compensation based on years of continuous service. In addition, for U.S. participants, employer contributions may be made at the discretion of the Board of Directors. For the three months ended March 31, 2016 and 2015, WESCO incurred charges of $8.3 million and $5.1 million, respectively, for all such plans. Contributions are made in cash to defined contribution retirement savings plans. The deferred compensation plan is an unfunded plan. Employees have the option to transfer balances allocated to their accounts in the defined contribution retirement savings plan and the deferred compensation plan into any of the available investment options.

In connection with the December 14, 2012 acquisition of EECOL, the Company assumed a contributory defined benefit plan covering substantially all Canadian employees of EECOL and a Supplemental Executive Retirement Plan for certain executives of EECOL.

The following table reflects the components of net periodic benefit costs for the Company's defined benefit plans:

	Three Months Ended March 31,	
(In thousands of dollars)	2016	2015
Service cost	$923	$1,171
Interest cost	926	1,042
Expected return on plan assets	(1,279)	(1,366)
Recognized actuarial gain	(10)	(4)

Net periodic benefit cost	$560	$843

During the three months ended March 31, 2016 and 2015, the Company made aggregate cash contributions of $0.5 million to its defined benefit plans.

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

8. COMMITMENTS AND CONTINGENCIES

WESCO is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment (the transfer of property to the state) of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. WESCO Distribution, Inc. is currently undergoing a compliance audit in the State of Delaware concerning the identification, reporting and escheatment of unclaimed or abandoned property. A third party auditor is conducting the audit on behalf of the State, and the Company has been working with an outside consultant during the audit process and in discussions with the auditors. The Company is defending the audit, the outcome of which cannot be predicted with certainty at this time. After the third party auditor completes its field work, it is expected to issue preliminary findings for review by the Company and the State, and thereafter the auditor is expected to issue a final report of examination. If the Company and State do not reach resolution after further discussion, the State issues a demand for payment, which the Company may either agree to pay or appeal, in full or in part. The Company has recorded a liability for unclaimed property based on the facts currently known to the Company.

In October 2014, WESCO was notified that the New York County District Attorney's Office is conducting a criminal investigation involving minority and disadvantaged business contracting practices in the construction industry in New York City and that various contractors, minority and disadvantaged business firms, and their material suppliers, including the Company, are a part of this investigation. The Company has commenced an internal review of this matter and intends to cooperate with the government investigation. The Company cannot predict the outcome or impact of the matter at this time, but could be subject to fines, penalties or other adverse consequences. Based on the facts currently known to the Company, it cannot reasonably estimate a range of exposure to potential liability at this time.

9. INCOME TAXES

The effective tax rate for the three months ended March 31, 2016 and 2015 was 31.9% and 29.4%, respectively. WESCO's effective tax rate is lower than the federal statutory rate of 35% due to benefits resulting from the tax effect of intercompany financing and lower rates on foreign earnings, which are partially offset by nondeductible expenses and state taxes. During the three months ended March 31, 2016, WESCO recognized a discrete item related to the settlement of an outstanding tax matter which increased the effective tax rate by 3.4 percentage points. There were no significant discrete items in the comparable prior year quarter.

The total amount of unrecognized tax benefits was reduced by $2.3 million during the three months ended March 31, 2016 to $3.1 million due to the settlement of outstanding tax matters and the expiration of statutes of limitation. At March 31, 2016, the amount of unrecognized tax benefits that would affect the effective tax rate if recognized in the consolidated financial statements was $4.5 million. It is reasonably possible that the amount of unrecognized tax benefits will decrease by approximately $1.0 million within the next twelve months due to the expiration of statutes of limitation and the settlement of state audits. Of this amount, $0.3 million could impact the effective tax rate.

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

10. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

WESCO International, Inc. has outstanding $344.9 million in aggregate principal amount of 2029 Debentures. The 2029 Debentures are fully and unconditionally guaranteed by WESCO Distribution, Inc., a 100% owned subsidiary of WESCO International, Inc., on a senior subordinated basis to all existing and future senior indebtedness of WESCO Distribution, Inc.

WESCO Distribution, Inc. has outstanding $500 million in aggregate principal amount of 5.375% Senior Notes due 2021 (the "2021 Notes"). The 2021 Notes are unsecured senior obligations of WESCO Distribution, Inc. and are fully and unconditionally guaranteed on a senior unsecured basis by WESCO International, Inc.

Condensed consolidating financial information for WESCO International, Inc., WESCO Distribution, Inc. and the non-guarantor subsidiaries is presented in the following tables.

Condensed Consolidating Balance Sheet
March 31, 2016

(In thousands of dollars)	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	$—	$ 36,166	$ 111,668	$—	$ 147,834
Trade accounts receivable, net	—	—	1,091,504	—	1,091,504
Inventories	—	393,120	450,986	—	844,106
Prepaid expenses and other current assets	8	34,281	165,680	(8,971)	190,998
Total current assets	8	463,567	1,819,838	(8,971)	2,274,442
Intercompany receivables, net	—	—	1,931,545	(1,931,545)	—
Property, buildings and equipment, net	—	54,688	112,851	—	167,539
Intangible assets, net	—	3,909	417,807	—	421,716
Goodwill	—	255,251	1,507,442	—	1,762,693
Investments in affiliates	3,429,718	3,900,638	—	(7,330,356)	—
Other assets	—	23,745	40,693	—	64,438
Total assets	$ 3,429,726	$ 4,701,798	$ 5,830,176	$ (9,270,872)	$ 4,690,828
Accounts payable	$—	$ 404,468	$ 330,443	$—	$ 734,911
Short-term debt	—	—	48,251	—	48,251
Other current liabilities	10,082	62,450	136,579	(8,971)	200,140
Total current liabilities	10,082	466,918	515,273	(8,971)	983,302
Intercompany payables, net	1,323,843	607,702	—	(1,931,545)	—
Long-term debt, net	178,896	717,869	494,462	—	1,391,227
Other noncurrent liabilities	19,101	226,601	177,115	—	422,817
Total WESCO International, Inc. stockholders' equity	1,897,804	2,682,708	4,647,648	(7,330,356)	1,897,804
Noncontrolling interests	—	—	(4,322)	—	(4,322)
Total liabilities and stockholders' equity	$ 3,429,726	$ 4,701,798	$ 5,830,176	$ (9,270,872)	$ 4,690,828

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

Condensed Consolidating Balance Sheet
December 31, 2015

(In thousands of dollars)	WESCO International, Inc.	WESCO Distribution, Inc.	Non-Guarantor Subsidiaries	Consolidating and Eliminating Entries	Consolidated
Cash and cash equivalents	$—	$38,963	$ 121,316	$—	$160,279
Trade accounts receivable, net	—	—	1,075,257	—	1,075,257
Inventories	—	376,641	433,426	—	810,067
Prepaid expenses and other current assets	15	47,290	173,596	(8,970)	211,931
Total current assets	15	462,894	1,803,595	(8,970)	2,257,534
Intercompany receivables, net	—	—	1,964,848	(1,964,848)	—
Property, buildings and equipment, net	—	56,921	109,818	—	166,739
Intangible assets, net	—	4,072	399,577	—	403,649
Goodwill	—	255,251	1,426,411	—	1,681,662
Investments in affiliates	3,309,006	3,827,069	—	(7,136,075)	—
Other assets	—	32,601	27,541	—	60,142
Total assets	$3,309,021	$4,638,808	$ 5,731,790	$(9,109,893)	$4,569,726
Accounts payable	$—	$414,524	$ 300,995	$—	$715,519
Short-term debt	—	—	43,314	—	43,314
Other current liabilities	15,254	55,129	127,555	(8,970)	188,968
Total current liabilities	15,254	469,653	471,864	(8,970)	947,801
Intercompany payables, net	1,320,240	644,608	—	(1,964,848)	—
Long-term debt, net	177,753	737,490	523,819	—	1,439,062
Other noncurrent liabilities	19,102	216,515	173,375	—	