

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)

**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

**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)

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 No

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

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 No

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.

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 Accelerated filer Non-accelerated filer

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

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

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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:

<i>(In thousands)</i>	Net Sales			Long-Lived Assets		
	Year Ended December 31,			December 31,		
	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.

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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 LAID[®] 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.

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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 expressions 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.

Table of Contents**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.

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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.