

WESCO INTERNATIONAL INC

Form 8-K

October 25, 2006

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the**

**Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): October 25, 2006**

**WESCO INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

Delaware

001-14989

25-1723342

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(IRS Employer  
Identification No.)

225 West Station Square Drive, Suite 700  
Pittsburgh, Pennsylvania

15219

(Address of principal executive offices)

(Zip code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 7.01. Regulation FD Disclosure.

On October 25, 2006, WESCO International, Inc. announced an offering of convertible debt securities. It is expected that the net proceeds from the offering, along with borrowings under credit facilities, will be used to finance WESCO Distribution Inc.'s previously announced acquisition of Communications Supply Holdings, Inc., which is described below.

On October 3, 2006, we announced that WESCO Distribution and Communications Supply had entered into an Agreement and Plan of Merger pursuant to which a wholly-owned subsidiary of WESCO Distribution will merge with and into Communications Supply, which will become a wholly-owned subsidiary of WESCO Distribution. Communications Supply, headquartered in Carol Stream, Illinois, is a leading national distributor of low voltage network infrastructure and industrial wire and cable products. Through its network of 32 branches, Communications Supply distributes a full range of products to support advanced connectivity for voice and data communications, access control, security surveillance and building automation. Communications Supply's sales force consists of over 300 associates, and its marketing activities reflect a strong focus on the Fortune 1000 and large institutional customers in the United States. Based on financial information included elsewhere in this offering memorandum, we believe that Communications Supply had net sales of approximately \$431 million, \$285 million and \$508 million and estimated EBITDA of approximately \$32 million, \$23 million and \$41 million for the year ended December 30, 2005 and the six and twelve months ended June 30, 2006, respectively.

**The Merger Agreement**

Under the merger agreement, a wholly-owned subsidiary of WESCO Distribution will merge with and into Communications Supply. Communications Supply would survive the merger as a wholly-owned subsidiary of WESCO Distribution, and the separate existence of the wholly-owned subsidiary of WESCO Distribution that will be merged with and into Communications Supply would terminate.

The cash purchase price for the acquisition of Communications Supply is approximately \$525 million, subject to adjustment based on working capital at the time of closing and certain other costs. Of the purchase price, \$17 million will be held in escrow following closing to address working capital adjustments and potential indemnification claims of WESCO Distribution. Up to \$12 million of the amount held in escrow may be released at any time on or after June 30, 2007 under certain circumstances, with any remaining amount held in escrow being eligible for release after January 31, 2008.

Completion of the merger is subject to various customary closing conditions, including the termination or expiration of any applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. While we anticipate that all such conditions will be satisfied, we cannot assure you that all such conditions will be satisfied or, where permissible, waived.

The merger agreement provides that it may be terminated at any time prior to the closing under certain circumstances, including by mutual written consent of Communications Supply and us or by either Communications Supply or us if any of the other party's representations and warranties contained in the merger agreement fail to be true and correct.

---

**Summary Pro Forma Consolidated Financial Information**

The summary pro forma consolidated financial information set forth below gives effect to our acquisition of Communications Supply and the completion of a previously announced offering of convertible debentures, as if each had occurred as of the beginning of the periods presented, with respect to the income statement data and other financial data, and as of June 30, 2006, with respect to the balance sheet data, and has been derived from our historical financial statements incorporated herein by reference from our Annual Report on Form 10-K for our fiscal year ended December 31, 2005 and our Quarterly Report on Form 10-Q for our fiscal quarter ended June 30, 2006 and the historical financial statements of Communications Supply which appear elsewhere in this Current Report. The pro forma adjustments are based upon available information and certain assumptions which we consider reasonable. See

Unaudited Pro Forma Condensed Combined Financial Information, which appears elsewhere in this Current Report, for more detailed information about the pro forma adjustments that have been made to arrive at the unaudited pro forma consolidated financial information presented below. The pro forma results of operations are not necessarily indicative of the results of operations which would have been achieved had the transactions reflected therein been consummated on the date indicated or which will be achieved in the future.

|                                                       | <b>Year Ended<br/>December 31,<br/>2005</b> | <b>Six Months<br/>Ended<br/>June 30, 2006</b> | <b>Twelve Months<br/>Ended<br/>June 30, 2006</b> |
|-------------------------------------------------------|---------------------------------------------|-----------------------------------------------|--------------------------------------------------|
| <b>(In millions, except share and per share data)</b> |                                             |                                               |                                                  |
| <b>Income Statement Data:</b>                         |                                             |                                               |                                                  |
| Net sales                                             | \$ 4,851.8                                  | \$ 2,886.3                                    | \$ 5,477.3                                       |
| Gross profit(1)                                       | 944.9                                       | 593.4                                         | 1,113.0                                          |
| Selling, general and administrative expenses          | 685.0                                       | 386.0                                         | 754.9                                            |
| Depreciation and amortization                         | 30.0                                        | 18.2                                          | 35.5                                             |
| Income from operations                                | 229.8                                       | 189.3                                         | 322.5                                            |
| Interest expense, net                                 | 53.0                                        | 23.4                                          | 48.9                                             |
| Loss on debt extinguishment(2)                        | 14.9                                        |                                               | 4.9                                              |
| Other expenses(3)                                     | 13.3                                        | 11.3                                          | 19.6                                             |
| Income before income taxes                            | 148.6                                       | 154.6                                         | 249.1                                            |
| Provision for income taxes                            | 47.3                                        | 51.4                                          | 81.7                                             |
| Net income                                            | \$ 101.4                                    | \$ 103.2                                      | \$ 167.4                                         |
| Earnings per common share                             |                                             |                                               |                                                  |
| Basic                                                 | \$ 2.15                                     | \$ 2.13                                       | \$ 3.50                                          |
| Diluted                                               | \$ 2.06                                     | \$ 1.98                                       | \$ 3.25                                          |
| Weighted average common shares outstanding            |                                             |                                               |                                                  |
| Basic                                                 | 47,085,524                                  | 48,334,545                                    | 47,827,093                                       |
| Diluted                                               | 49,238,436                                  | 52,124,312                                    | 51,541,246                                       |
| <b>Other Financial Data:</b>                          |                                             |                                               |                                                  |
| EBITDA (as defined)(4)                                | \$ 259.8                                    | \$ 207.5                                      | \$ 358.0                                         |

**As of June 30, 2006**  
**(In millions)**

**Balance Sheet Data:**

|                                                  |    |         |
|--------------------------------------------------|----|---------|
| Total assets                                     | \$ | 2,301.7 |
| Total long-term debt (including current portion) |    | 739.1   |
| Stockholders' equity                             |    | 629.8   |

- (1) Excludes depreciation and amortization.
- (2) Represents a charge relating to the write-off of unamortized debt issuance and other costs associated with the early extinguishment of debt.
- (3) Represents costs relating to the sale of accounts receivable pursuant to our accounts receivable securitization facility. See Note 4 to our audited consolidated financial statements, which are incorporated by reference in this offering memorandum.
- (4) The table below shows how we calculate EBITDA:

|                               | <b>Year Ended<br/>December 31,<br/>2005</b> | <b>Six Months<br/>Ended<br/>June 30 2006<br/>(In millions)</b> | <b>Twelve<br/>Months<br/>Ended June 30<br/>2006</b> |
|-------------------------------|---------------------------------------------|----------------------------------------------------------------|-----------------------------------------------------|
| Income from operations        | \$ 229.8                                    | \$ 189.3                                                       | \$ 322.5                                            |
| Depreciation and Amortization | 30.0                                        | 18.2                                                           | 35.5                                                |
| EBITDA (as defined)           | \$ 259.8                                    | \$ 207.5                                                       | \$ 358.0                                            |

## **UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following unaudited pro forma condensed combined financial information gives effect to the acquisition by WESCO International, Inc. ( "WESCO" ) of Communications Supply Corporation ( "CSC" ), which is expected to be completed by November 3, 2006, and the previously announced offering of convertible debentures, as if the acquisition and the offering were completed on June 30, 2006 with respect to the balance sheet data and on January 1, 2005 with respect to the statement of income data. The following unaudited pro forma condensed combined financial information is derived from the historical financial statements of WESCO and CSC and should be read in conjunction with their respective consolidated financial statements, including the notes thereto. The pro forma adjustments are based upon available information and certain assumptions that WESCO considers reasonable. The following unaudited pro forma condensed combined financial information has been prepared for informational purposes only and does not purport to be indicative of the actual results of operation of the combined enterprise if the acquisition had actually occurred on the dates indicated or what may result in the future.

WESCO has a December 31 fiscal year end and CSC operates on a 52 to 53 week fiscal year ending on the last Friday in December. The following unaudited pro forma condensed combined financial information includes: (i) an unaudited pro forma condensed combined balance sheet as of June 30, 2006; (ii) an unaudited pro forma condensed combined statement of operations for the six months ended June 30, 2006; and (iii) an unaudited pro forma condensed statement of income for the year ended December 31, 2005.

---

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET  
JUNE 30, 2006**

|                                            | <b>Historical<br/>WESCO<br/>June 30,<br/>2006(a)</b> | <b>Historical<br/>CSC<br/>June 30,<br/>2006(b)</b> | <b>Adjustments<br/>(In thousands)</b> | <b>Notes</b> | <b>Pro Forma<br/>Combined<br/>June 30,<br/>2006</b> |
|--------------------------------------------|------------------------------------------------------|----------------------------------------------------|---------------------------------------|--------------|-----------------------------------------------------|
| <b>ASSETS</b>                              |                                                      |                                                    |                                       |              |                                                     |
| <b>Current Assets:</b>                     |                                                      |                                                    |                                       |              |                                                     |
| Cash and cash equivalents                  | \$ 37,823                                            | \$ 23                                              | \$ (9,023)                            | e, s         | \$ 28,823                                           |
| Accounts receivables, net                  | 386,189                                              | 111,491                                            | (110,000)                             | d            | 387,680                                             |
| Other accounts receivable                  | 22,104                                               |                                                    |                                       |              | 22,104                                              |
| Inventories, net                           | 536,249                                              | 85,386                                             |                                       |              | 621,635                                             |
| Current deferred income taxes              | 15,384                                               | 5,720                                              |                                       |              | 21,104                                              |
| Income taxes receivable                    | 10,287                                               |                                                    |                                       |              | 10,287                                              |
| Prepaid expenses and other current assets  | 9,535                                                | 6,635                                              |                                       |              | 16,170                                              |
| Total current assets                       | 1,017,571                                            | 209,255                                            | (119,023)                             |              | 1,107,803                                           |
| Property buildings and equipment, net:     | 104,373                                              | 5,835                                              |                                       |              | 110,208                                             |
| Intangible assets, net                     | 81,082                                               | 59,375                                             | (59,375)                              | e            |                                                     |
|                                            |                                                      |                                                    | 148,000                               | c            | 229,082                                             |
| Goodwill                                   | 550,830                                              | 126,819                                            | (126,819)                             | e            |                                                     |
|                                            |                                                      |                                                    | 261,221                               | c            |                                                     |
|                                            |                                                      |                                                    | 21,095                                | g            | 833,146                                             |
| Other assets                               | 12,078                                               | 2,806                                              | 6,601                                 | f, s         | 21,485                                              |
| <b>Total assets</b>                        | <b>\$ 1,765,934</b>                                  | <b>\$ 404,090</b>                                  | <b>\$ 131,700</b>                     |              | <b>\$ 2,301,724</b>                                 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b> |                                                      |                                                    |                                       |              |                                                     |
| <b>Current Liabilities:</b>                |                                                      |                                                    |                                       |              |                                                     |
| Accounts payable                           | \$ 610,816                                           | \$ 50,675                                          |                                       |              | \$ 661,491                                          |
| Accrued payroll and benefit costs          | 37,120                                               |                                                    |                                       |              | 37,120                                              |
| Current portion of long-term debt          | 5,663                                                | 1,300                                              | (1,300)                               | f            |                                                     |
|                                            |                                                      |                                                    | 25,000                                | d            | 30,663                                              |
| Deferred acquisition payable               | 4,632                                                |                                                    |                                       |              | 4,632                                               |
| Other current liabilities                  | 40,323                                               | 22,779                                             | (1,765)                               | f            | 61,337                                              |
| Total current liabilities                  | 698,554                                              | 74,754                                             | 21,935                                |              | 795,243                                             |
| Long-term debt                             | 349,122                                              | 188,028                                            | (188,028)                             | f            |                                                     |
|                                            |                                                      |                                                    | 390,000                               | d            | 739,122                                             |
| Other noncurrent liabilities               | 11,337                                               | 617                                                |                                       |              | 11,954                                              |
| Deferred income taxes                      | 77,119                                               | 27,389                                             | 21,095                                | g            | 125,603                                             |

Edgar Filing: WESCO INTERNATIONAL INC - Form 8-K

|                                                  |                     |                   |                   |   |                     |
|--------------------------------------------------|---------------------|-------------------|-------------------|---|---------------------|
| Total liabilities                                | 1,136,132           | 290,788           | 245,002           |   | 1,671,922           |
| <b>Stockholders' Equity:</b>                     |                     |                   |                   |   |                     |
| Preferred Stock                                  |                     | 8                 | (8)               | e |                     |
| Common stock                                     | 531                 | 91                | (91)              | e | 531                 |
| Class B nonvoting convertible common stock       | 43                  |                   |                   |   | 43                  |
| Additional paid-in capital                       | 749,158             | 96,014            | (96,014)          | e | 749,158             |
| Notes receivable from stockholders               |                     | (765)             | 765               | e |                     |
| Retained earnings (deficit)                      | (68,704)            | 17,792            | (17,792)          | e | (68,704)            |
| Treasury stock                                   | (67,769)            |                   |                   |   | (67,769)            |
| Accumulated other comprehensive income           | 16,543              | 162               | (162)             | e | 16,543              |
| Total stockholders' equity                       | 629,802             | 113,302           | (113,302)         |   | 629,802             |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 1,765,934</b> | <b>\$ 404,090</b> | <b>\$ 131,700</b> |   | <b>\$ 2,301,724</b> |

See notes to unaudited pro forma condensed combined financial statements.

**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME  
FOR THE SIX MONTHS ENDED JUNE 30, 2006**

|                                                                                                                                                                  | <b>Historical<br/>WESCO</b>                                       | <b>Historical<br/>CSC</b>                                         |                          | <b>Pro Forma<br/>Combined<br/>For the Six<br/>Months<br/>Ending<br/>June 30,<br/>2006</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------|-------------------------------------------------------------------------------------------|
|                                                                                                                                                                  | <b>For the Six<br/>Months<br/>Ending<br/>June 30,<br/>2006(h)</b> | <b>For the Six<br/>Months<br/>Ending<br/>June 30,<br/>2006(i)</b> | <b>Adjustments</b>       | <b>Notes</b>                                                                              |
| <b>(In thousands, except share and per share data)</b>                                                                                                           |                                                                   |                                                                   |                          |                                                                                           |
| Net sales                                                                                                                                                        | \$ 2,601,484                                                      | \$ 284,824                                                        |                          | \$ 2,886,308                                                                              |
| Cost of goods sold                                                                                                                                               | 2,077,825                                                         | 215,040                                                           |                          | 2,292,865                                                                                 |
| Gross profit                                                                                                                                                     | 523,659                                                           | 69,784                                                            |                          | 593,443                                                                                   |
| Selling, general and administrative expenses                                                                                                                     | 339,410                                                           | 46,547                                                            |                          | 385,957                                                                                   |
| Depreciation and amortization                                                                                                                                    | 12,596                                                            | 5,228                                                             | (3,610)<br>4,000         | o<br>p<br>18,214                                                                          |
| Income from operations                                                                                                                                           | 171,653                                                           | 18,009                                                            | (390)                    | 189,272                                                                                   |
| Interest expense, net                                                                                                                                            | 12,006                                                            | 9,520                                                             | (9,520)<br>11,163<br>225 | l<br>m<br>n<br>23,394                                                                     |
| Other expenses (income)                                                                                                                                          | 11,323                                                            |                                                                   |                          | 11,323                                                                                    |
| Income before income taxes                                                                                                                                       | 148,324                                                           | 8,489                                                             | (2,258)                  | 154,556                                                                                   |
| Provision for income taxes                                                                                                                                       | 48,696                                                            | 3,518                                                             | (842)                    | r<br>51,372                                                                               |
| <b>Net income</b>                                                                                                                                                | <b>\$ 99,628</b>                                                  | <b>\$ 4,971</b>                                                   | <b>\$ (1,415)</b>        | <b>\$ 103,184</b>                                                                         |
| Earnings Per Share:                                                                                                                                              |                                                                   |                                                                   |                          |                                                                                           |
| Weighted average common shares outstanding used in computing basic earnings per share                                                                            | 48,334,545                                                        |                                                                   |                          | 48,334,545                                                                                |
| <b>Basic earnings per share</b>                                                                                                                                  | <b>\$ 2.06</b>                                                    |                                                                   |                          | <b>\$ 2.13</b>                                                                            |
| Weighted average common shares outstanding including common shares issuable upon exercise of dilutive stock options used in computing diluted earnings per share | 52,124,312                                                        |                                                                   |                          | 52,124,312                                                                                |
| <b>Diluted earnings per share</b>                                                                                                                                | <b>\$ 1.91</b>                                                    |                                                                   |                          | <b>\$ 1.98</b>                                                                            |

See notes to unaudited pro forma condensed combined financial statements.



**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|                                                                                                                                                                  | <b>Historical<br/>WESCO<br/>For the Year<br/>Ending<br/>December 31,<br/>2005(j)</b> | <b>Historical<br/>CSC<br/>For the Year<br/>Ending<br/>December 30,<br/>2005(k)</b> | <b>Adjustments</b>        | <b>Note</b> | <b>Pro Forma<br/>Combined<br/>For the Year<br/>Ending<br/>December 31,<br/>2005</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|---------------------------|-------------|-------------------------------------------------------------------------------------|
| <b>(In thousands, except share and per share data)</b>                                                                                                           |                                                                                      |                                                                                    |                           |             |                                                                                     |
| Net sales                                                                                                                                                        | \$ 4,421,103                                                                         | \$ 430,671                                                                         |                           |             | \$ 4,851,774                                                                        |
| Cost of goods sold                                                                                                                                               | 3,580,398                                                                            | 326,526                                                                            |                           |             | 3,906,924                                                                           |
| Gross profit                                                                                                                                                     | 840,705                                                                              | 104,145                                                                            |                           |             | 944,850                                                                             |
| Selling, general and administrative expenses                                                                                                                     | 612,780                                                                              | 72,184                                                                             | 28                        | q           | 684,992                                                                             |
| Depreciation and amortization                                                                                                                                    | 18,639                                                                               | 9,007                                                                              | (5,610)<br>8,000          | o<br>p      | 30,036                                                                              |
| Income from operations                                                                                                                                           | 209,286                                                                              | 22,954                                                                             | (2,418)                   |             | 229,822                                                                             |
| Interest expense, net                                                                                                                                            | 30,183                                                                               | 12,254                                                                             | (12,254)<br>22,325<br>450 | l<br>m<br>n | 52,958                                                                              |
| Loss on debt extinguishment, net                                                                                                                                 | 14,914                                                                               |                                                                                    |                           |             | 14,914                                                                              |
| Other expenses (income)                                                                                                                                          | 13,305                                                                               |                                                                                    |                           |             | 13,305                                                                              |
| Income before income taxes                                                                                                                                       | 150,884                                                                              | 10,700                                                                             | (12,939)                  |             | 148,645                                                                             |
| Provision for income taxes                                                                                                                                       | 47,358                                                                               | 4,682                                                                              | (4,762)                   | r           | 47,278                                                                              |
| <b>Net income</b>                                                                                                                                                | <b>\$ 103,526</b>                                                                    | <b>\$ 6,018</b>                                                                    | <b>\$ (8,177)</b>         |             | <b>\$ 101,367</b>                                                                   |
| <b>Earnings Per Share:</b>                                                                                                                                       |                                                                                      |                                                                                    |                           |             |                                                                                     |
| Weighted average common shares outstanding used in computing basic earnings per share                                                                            | 47,085,524                                                                           |                                                                                    |                           |             | 47,085,524                                                                          |
| <b>Basic earnings per share</b>                                                                                                                                  | <b>\$ 2.20</b>                                                                       |                                                                                    |                           |             | <b>\$ 2.15</b>                                                                      |
| Weighted average common shares outstanding including common shares issuable upon exercise of dilutive stock options used in computing diluted earnings per share | 49,238,436                                                                           |                                                                                    |                           |             | 49,238,436                                                                          |
|                                                                                                                                                                  | <b>\$ 2.10</b>                                                                       |                                                                                    |                           |             | <b>\$ 2.06</b>                                                                      |

**Diluted earnings per  
share**

See notes to unaudited pro forma condensed combined financial statements.

---

**WESCO International, Inc.**

**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

**1. BASIS OF PRESENTATION**

The Unaudited Pro Forma Condensed Combined Financial Information has been prepared using the purchase method of accounting as if the transaction had been completed as of January 1, 2005 for purposes of the Unaudited Pro Forma Condensed Combined Statements of Income and on June 30, 2006 for the purposes of the Unaudited Pro Forma Condensed Combined Balance Sheet.

WESCO's fiscal year end is December 31 and CSC operates on a 52 to 53 week fiscal year ending on the last Friday in December which the latest is December 30, 2005. The Unaudited Pro Forma Condensed Combined Financial Information should be read in conjunction with the separate historical Consolidated Financial Statements and accompanying notes included in WESCO's Annual Report on Form 10-K for the year ended December 31, 2005 and Quarterly Reports on Form 10-Q for the three and six months ended March 31, 2006 and June 30, 2006 and CSC audited financial statements for the year ended December 30, 2005 and the Unaudited Condensed Consolidated Financial Statements for the six months ended June 30, 2006. The Unaudited Pro Forma Condensed Combined Financial Information is not intended to be indicative of the consolidated results of operations or the financial condition of WESCO that would have been reported had the merger been completed as of the dates presented and should not be taken as representative of the future consolidated results of operations or financial condition of WESCO. The accompanying Unaudited Pro Forma Condensed Combined Financial Information is presented in accordance with Article 11 of the U.S. Securities and Exchange Commission Regulation S-X.

Under the purchase method of accounting, the purchase price is allocated to the underlying assets acquired and liabilities assumed based on their representative fair market values, with any excess purchase price allocated to goodwill. The pro forma purchase price allocation has been derived from estimates of the fair market value of the tangible and intangible assets and liabilities of CSC based upon WESCO management's estimates using valuation techniques. Certain assumptions have been made with respect to the fair market value of identifiable intangible assets as more fully described in the accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Information. The total purchase price of CSC has been allocated on a preliminary basis to identifiable assets acquired and liabilities assumed based upon valuation procedures performed to date. This allocation is subject to change pending a final analysis of the total purchase price paid, including the direct costs of the acquisition and the estimated fair value of the assets acquired and liabilities assumed.

The Unaudited Pro Forma Condensed Combined Financial Information does not reflect any effect of operating efficiencies, cost savings, and other benefits anticipated by WESCO's management as a result of the merger. Additionally, certain integration costs may be recorded subsequent to the merger that under purchase accounting will not be treated as part of the CSC purchase price. These costs have not been reflected in these Unaudited Pro Forma Condensed Statements of Income because they are not expected to have a continuing impact on the combined results.

**2. PRO FORMA ADJUSTMENTS**

The pro forma adjustments give effect to the acquisition of CSC by WESCO.

**Balance Sheet-As of June 30, 2006**

(a) Derived from the unaudited WESCO condensed consolidated balance sheet as of June 30, 2006.

(b) Derived from the unaudited CSC consolidated balance sheet as of June 30, 2006.

---

**WESCO International, Inc.****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL  
INFORMATION (Continued)**

(c) The following table summarizes the estimated allocation of the purchase price for CSC and the pro forma adjustments to record goodwill:

|                                                                    | <b>As of<br/>June 30,<br/>2006<br/>(In thousands, except estimated useful life)</b> | <b>Estimated<br/>Useful Life</b> | <b>Annual<br/>Amortization</b> |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------|--------------------------------|
| Historical value of assets and liabilities assumed:                |                                                                                     |                                  |                                |
| Accounts receivables, net                                          | \$ 111,491                                                                          |                                  |                                |
| Inventories, net                                                   | 85,386                                                                              |                                  |                                |
| Current deferred income taxes                                      | 5,720                                                                               |                                  |                                |
| Other current assets                                               | 6,635                                                                               |                                  |                                |
| Property and equipment                                             | 5,835                                                                               |                                  |                                |
| Other long-term assets                                             | 407                                                                                 |                                  |                                |
| Current liabilities assumed                                        | (71,689)                                                                            |                                  |                                |
| Deferred income taxes                                              | (27,389)                                                                            |                                  |                                |
| Other long-term liabilities assumed                                | (617)                                                                               |                                  |                                |
| Total historical value of assets and liabilities assumed           | 115,779                                                                             |                                  |                                |
| Identifiable intangibles at fair value:                            |                                                                                     |                                  |                                |
| Customer relationships                                             | 90,000                                                                              | 15 years                         | \$ 6,000                       |
| Supplier relationships                                             | 24,000                                                                              | 12 years                         | 2,000                          |
| Tradenname / trademarks                                            | 34,000                                                                              | Indefinite                       |                                |
| Total identifiable intangibles:                                    | 148,000                                                                             |                                  |                                |
| Net fair value assigned to assets acquired and liabilities assumed | 263,779                                                                             |                                  |                                |
| Goodwill                                                           | 261,221                                                                             |                                  |                                |
| Total purchase price                                               | \$ 525,000                                                                          |                                  | \$ 8,000                       |

The allocation of purchase price to identifiable intangibles at fair value is preliminary and can change upon completion of the analysis. A \$5 million reduction in the amount of customer relationships would cause a reduction in annual amortization of approximately \$330,000. A one-year reduction in the useful life of customer relationships would result in an increase of annual amortization of approximately \$429,000. A \$5 million reduction in the amount of supplier relationships would cause a reduction in annual amortization of approximately \$417,000. A one-year reduction in the useful life of supplier relationships would result in an increase of annual amortization of approximately \$182,000.

(d) The following represents a summary of the purchase price consideration:

|               | <b>2.0% Convertible<br/>Senior<br/>Debentures Due<br/>2026</b> |         | <b>Revolving<br/>Credit</b>               |         | <b>Accounts<br/>Receivable<br/>Securitization</b> | <b>Total</b> |
|---------------|----------------------------------------------------------------|---------|-------------------------------------------|---------|---------------------------------------------------|--------------|
|               |                                                                |         | <b>(In thousands, except percentages)</b> |         |                                                   |              |
| Principal     | \$                                                             | 250,000 | \$                                        | 165,000 | \$ 110,000                                        | \$ 525,000   |
| Interest rate |                                                                | 2.000%  |                                           | 6.500%  | 6.000%                                            |              |
| Current       |                                                                |         | \$                                        | 25,000  |                                                   | \$ 25,000    |

---

**WESCO International, Inc.****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL  
INFORMATION (Continued)**

For purposes of preparing the pro forma financial information, an interest rate of 2.0% is assumed for the Convertible Senior Debentures due 2026 issued in this offering.

Deferred financing fees related to the issuance of 2.0% Convertible Senior Debentures due 2026 are estimated to be \$9 million resulting in net proceeds of \$241 million. Amortization of the deferred financing fees is over 240 months and \$450,000 annually.

(e) Reflects elimination of the CSC goodwill, intangibles, cash and equity not assumed in the acquisition.

(f) Reflects elimination of CSC bank debt and related deferred financing fees and accrued interest as follows:

| <b>Debt</b>               | <b>Balance<br/>As of<br/>June 30,<br/>2006</b> | <b>Deferred<br/>Financing<br/>Fees<br/>(In thousands)</b> | <b>Accrued<br/>Interest</b> |
|---------------------------|------------------------------------------------|-----------------------------------------------------------|-----------------------------|
| Revolving bank loan       | \$ 9,778                                       |                                                           |                             |
| Term loan                 | 129,738                                        |                                                           |                             |
| Senior subordinated notes | 49,812                                         |                                                           |                             |
| Total                     | 189,328                                        |                                                           |                             |
| Less current portion      | 1,300                                          |                                                           |                             |
| Long-term portion         | \$ 188,028                                     | \$ 2,399                                                  | \$ 1,765                    |

(g) To record adjustments for deferred tax assets related to identified intangible assets:

|                          | <b>Preliminary<br/>Fair<br/>Value<br/>(In thousands, except percentages)</b> | <b>Statutory<br/>Tax Rate</b> | <b>Deferred Tax<br/>Asset<br/>(Liability)</b> |
|--------------------------|------------------------------------------------------------------------------|-------------------------------|-----------------------------------------------|
| Long term deferred taxes |                                                                              |                               |                                               |
| Intangible assets        |                                                                              |                               |                                               |
| Customer relationships   | \$ 90,000                                                                    | 37.30%                        | \$ (33,570)                                   |
| Supplier relationships   | 24,000                                                                       | 37.30%                        | (8,952)                                       |
| Tradenname / Trademarks  | 34,000                                                                       |                               |                                               |

|                                                |             |
|------------------------------------------------|-------------|
| Subtotal long term deferred taxes              | (42,522)    |
| Deferred tax liability on CSC carry-over basis | 21,427      |
| Incremental deferred tax liability             | \$ (21,095) |

**Unaudited Pro Forma Condensed Statements of Income**

(h) Derived from the unaudited WESCO consolidated statement of income for the six months ended June 30, 2006.

(i) Derived from the unaudited CSC consolidated statement of income for the six months ended June 30, 2006.

(j) Derived from the audited WESCO consolidated statement of income for the year ended December 31, 2005.

(k) Derived from the audited CSC consolidated statement of income for the year ended December 30, 2005.

**WESCO International, Inc.****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL  
INFORMATION (Continued)**

(l) Reflects elimination of interest expense related to CSC debt being eliminated at acquisition.

(m) Reflects interest on the purchase related borrowings as follows:

|                                           | <b>2.0% Convertible<br/>Senior<br/>Debentures Due<br/>2026</b> | <b>Revolving<br/>Credit<br/>Facility<br/>(In thousands)</b> | <b>Accounts<br/>Receivable<br/>Securitization</b> | <b>Total</b> |
|-------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------|--------------|
| For the year ended December 31,<br>2005   | \$ 5,000                                                       | \$ 10,725                                                   | \$ 6,600                                          | \$ 22,325    |
| For the six months ended June 30,<br>2006 | \$ 2,500                                                       | \$ 5,363                                                    | \$ 3,300                                          | \$ 11,163    |

For purposes of preparing the pro forma financial information, an interest rate of 2.0% is assumed for the Convertible Senior Debentures due 2026 in this offering.

(n) Reflects amortization on the purchase related borrowings deferred financing fees as follows (in thousands):

|                                        |        |
|----------------------------------------|--------|
| For the year ended December 31, 2005   | \$ 450 |
| For the six months ended June 30, 2006 | \$ 225 |

(o) Reflects elimination of amortization of intangibles related to CSC as follows (in thousands):

|                                        |          |
|----------------------------------------|----------|
| For the year ended December 30, 2005   | \$ 5,610 |
| For the six months ended June 30, 2006 | \$ 3,610 |

(p) Reflects amortization of intangibles related to the acquisition of CSC as follows (in thousands):

|                                        |          |
|----------------------------------------|----------|
| For the year ended December 31, 2005   | \$ 8,000 |
| For the six months ended June 30, 2006 | \$ 4,000 |

(q) Reflects adjustment for fair value based method of accounting for CSC stock based awards (FAS 123):

**For the Year Ended  
Ended December 31,**

**2005**  
**(In thousands)**

|                                  |    |    |
|----------------------------------|----|----|
| Share Based Options Not Expensed | \$ | 28 |
|----------------------------------|----|----|

(r) Reflects income taxes on the related pro forma adjustments based on the then statutory tax rate as follows:

|                                               | <b>For the Year<br/>Ended<br/>December 31,<br/>2005<br/>(In thousands, except percentages)</b> | <b>For the Six Months<br/>Ended June 30,<br/>2006</b> |
|-----------------------------------------------|------------------------------------------------------------------------------------------------|-------------------------------------------------------|
| Statutory rate                                | 36.8%                                                                                          | 37.3%                                                 |
| Income taxes related to pro forma adjustments | \$ (4,762)                                                                                     | \$ (842)                                              |

(s) Reflects deferred financing fees as follows (in thousands):

|                                                             |                 |
|-------------------------------------------------------------|-----------------|
| 2.0% Convertible Senior Debenture Initial Purchase Discount | \$ 6,025        |
| Other offering fees                                         | 2,975           |
| <b>Total</b>                                                | <b>\$ 9,000</b> |

---

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

### **Communications Supply Holdings, Inc.**

|                                                                                                                                                                                                                                                                                            |      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|
| <u>Report of Independent Auditors</u>                                                                                                                                                                                                                                                      | F-2  |
| <u>Consolidated Balance Sheets as of December 30, 2005 and December 31, 2004</u>                                                                                                                                                                                                           | F-3  |
| <u>Consolidated Statements of Operations of Communications Supply Holdings, Inc. for the year ended December 30, 2005 and the period from inception (May 4, 2004) through December 31, 2004 and of the Predecessor for the period from December 27, 2003 through May 3, 2004</u>           | F-4  |
| <u>Consolidated Statements of Stockholders' Equity of Communications Supply Holdings, Inc. for the year ended December 30, 2005 and the period from inception (May 4, 2004) through December 31, 2004 and of the Predecessor for the period from December 27, 2003 through May 3, 2004</u> | F-5  |
| <u>Consolidated Statements of Cash Flows of Communications Supply Holdings, Inc. for the year ended December 30, 2005 and the period from inception (May 4, 2004) through December 31, 2004 and of the Predecessor for the period from December 27, 2003 through May 3, 2004</u>           | F-6  |
| <u>Notes to Consolidated Financial Statements</u>                                                                                                                                                                                                                                          | F-7  |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2006 (unaudited) and December 30, 2005</u>                                                                                                                                                                                         | F-21 |
| <u>Condensed Consolidated Statements of Operations for the six-month periods ended June 30, 2006 and July 1, 2005 (unaudited)</u>                                                                                                                                                          | F-22 |
| <u>Condensed Consolidated Statements of Cash Flows for the six-month periods ended June 30, 2006 and July 1, 2005 (unaudited)</u>                                                                                                                                                          | F-23 |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>                                                                                                                                                                                                                    | F-24 |

### **Report of Independent Auditors**

The Board of Directors  
Communications Supply Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Communications Supply Holdings, Inc. & Subsidiary as of December 30, 2005 and December 31, 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 30, 2005 and the period from inception (May 4, 2004) through December 31, 2004, and of the Predecessor for the period from December 27, 2003 through May 3, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Communications Supply Holdings, Inc. as of December 30, 2005 and December 31, 2004, and the consolidated results of its operations and its cash flows for the year ended December 30, 2005 and for the period from inception (May 4, 2004) through December 31, 2004 for the Company, and for the period from December 27, 2003 through May 3, 2004 for the Predecessor, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

March 10, 2006

## COMMUNICATIONS SUPPLY HOLDINGS, INC. &amp; SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

|                                                                                                                                                    | December<br>30,<br>2005 | December 31,<br>2004 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|----------------------|
|                                                                                                                                                    | (Dollars in thousands)  |                      |
| ASSETS                                                                                                                                             |                         |                      |
| Current assets:                                                                                                                                    |                         |                      |
| Cash and cash equivalents                                                                                                                          | \$ 3,963                | \$ 2,219             |
| Accounts receivable, net of allowance of \$1,746 in 2005 and \$1,979 in 2004                                                                       | 72,335                  | 70,136               |
| Inventory                                                                                                                                          | 59,667                  | 46,834               |
| Deferred income taxes                                                                                                                              | 5,034                   | 6,065                |
| Prepaid expenses and other assets                                                                                                                  | 9,302                   | 8,271                |
| Total current assets                                                                                                                               | 150,301                 | 133,525              |
| Property and equipment, net                                                                                                                        | 5,187                   | 4,501                |
| Intangible assets, net                                                                                                                             | 37,540                  |                      |
| Goodwill                                                                                                                                           | 95,249                  | 119,945              |
| Deferred financing costs, net of accumulated amortization of \$761 in 2005 and \$303 in 2004                                                       | 2,515                   | 2,956                |
| Other assets                                                                                                                                       | 376                     | 764                  |
|                                                                                                                                                    | \$ 291,168              | \$ 261,691           |
| LIABILITIES AND STOCKHOLDERS EQUITY                                                                                                                |                         |                      |
| Current liabilities:                                                                                                                               |                         |                      |
| Accounts payable                                                                                                                                   | \$ 31,885               | \$ 29,713            |
| Accrued expenses                                                                                                                                   | 15,712                  | 12,457               |
| Current portion of long-term debt                                                                                                                  | 1,494                   | 2,906                |
| Total current liabilities                                                                                                                          | 49,091                  | 45,076               |
| Deferred income taxes                                                                                                                              | 19,854                  | 3,571                |
| Long-term debt, less current portion                                                                                                               | 77,841                  | 76,186               |
| Senior subordinated notes                                                                                                                          | 41,077                  | 40,264               |
| Stockholders equity:                                                                                                                               |                         |                      |
| Preferred stock, \$0.01 par value, 1,000,000 shares authorized, 804,459 and 801,288 shares issued and outstanding in 2005 and 2004, respectively   | 8                       | 8                    |
| Common stock, \$0.01 par value, 15,000,000 shares authorized, 9,012,500 and 9,000,990 shares issued and outstanding in 2005 and 2004, respectively | 90                      | 90                   |
| Additional paid-in capital                                                                                                                         | 90,787                  | 90,435               |
| Notes receivable from stockholders                                                                                                                 | (518)                   | (525)                |
| Accumulated other comprehensive loss                                                                                                               | 117                     | (217)                |
| Retained earnings                                                                                                                                  | 12,821                  | 6,803                |

|            |            |
|------------|------------|
| 103,305    | 96,594     |
| \$ 291,168 | \$ 261,691 |

See accompanying notes.

F-3

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

|                                                 | <b>Year<br/>Ended<br/>December 30,<br/>2005</b> | <b>Successor<br/>Period from<br/>May 4, 2004<br/>through<br/>December 31,<br/>2004<br/>(Dollars in thousands)</b> | <b>Predecessor<br/>Period from<br/>December 27,<br/>2003<br/>through May 3,<br/>2004</b> |
|-------------------------------------------------|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Net sales                                       | \$ 430,671                                      | \$ 272,431                                                                                                        | \$ 119,878                                                                               |
| Cost of sales                                   | 326,526                                         | 205,475                                                                                                           | 90,604                                                                                   |
| Gross profit                                    | 104,145                                         | 66,956                                                                                                            | 29,274                                                                                   |
| Selling, general and administrative expenses    | 72,184                                          | 45,793                                                                                                            | 21,274                                                                                   |
| Depreciation and amortization                   | 9,007                                           | 1,587                                                                                                             | 692                                                                                      |
| Merger transaction expenses                     |                                                 |                                                                                                                   | 7,186                                                                                    |
| Income from operations                          | 22,954                                          | 19,576                                                                                                            | 122                                                                                      |
| Interest expense, net                           | 12,254                                          | 7,773                                                                                                             | 4,944                                                                                    |
| Income (loss) before provision for income taxes | 10,700                                          | 11,803                                                                                                            | (4,822)                                                                                  |
| Provision for (benefit from) income taxes       | 4,682                                           | 5,000                                                                                                             | (1,679)                                                                                  |
| Net income (loss)                               | \$ 6,018                                        | \$ 6,803                                                                                                          | (3,143)                                                                                  |

See accompanying notes.

COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

| Successor              |        | Predecessor     |        | Notes        |          | Additional   |           | Retained     |              |
|------------------------|--------|-----------------|--------|--------------|----------|--------------|-----------|--------------|--------------|
| % Redeemable           |        | 8% Redeemable   |        | Paid-In      |          | Stockholders |           | Earnings     |              |
| Preferred Stock        |        | Preferred Stock |        | Common Stock |          | Common Stock |           | Common Stock |              |
| Shares                 | Amount | Shares          | Amount | Shares       | Amount   | Shares       | Amount    | Capital      | Stockholders |
| (Dollars in thousands) |        |                 |        |              |          |              |           |              |              |
|                        | \$     |                 | \$     | 20,000       | \$ 3,120 | 15,808,427   | \$ 36,409 | \$           | \$ (529)     |
|                        |        |                 |        |              | 53       |              |           |              | \$ 36,823    |
|                        |        |                 |        |              |          |              |           |              | (53)         |
|                        |        |                 |        |              |          |              |           |              | 2            |
|                        |        |                 |        |              |          |              | 463       |              |              |
|                        |        |                 |        |              |          |              |           |              | (3,143)      |
| 801,063                | 8      | 8,998,490       | 90     | 20,000       | 3,173    | 15,808,427   | 36,872    |              | (527)        |
|                        |        |                 |        | (20,000)     | (3,173)  | (15,808,427) | (36,872)  | 89,007       | 27           |
|                        |        |                 |        |              |          |              |           |              | (33,627)     |
|                        |        |                 |        |              |          |              |           | 1,403        |              |
| 225                    |        | 2,500           |        |              |          |              |           | 25           | (25)         |
|                        |        |                 |        |              |          |              |           |              |              |
|                        |        |                 |        |              |          |              |           |              | 6,803        |
|                        |        |                 |        |              |          |              |           |              | 6,803        |
| 801,288                | 8      | 9,000,990       | 90     |              |          |              |           | 90,435       | (525)        |
|                        |        |                 |        |              |          |              |           |              | 6,803        |
| 3,441                  |        | 14,540          |        |              |          |              |           | 382          |              |
| (270)                  |        | (3,030)         |        |              |          |              |           | (30)         |              |

7

6,018

6,018

|         |      |           |       |    |    |           |          |           |
|---------|------|-----------|-------|----|----|-----------|----------|-----------|
| 804,459 | \$ 8 | 9,012,500 | \$ 90 | \$ | \$ | \$ 90,787 | \$ (518) | \$ 12,821 |
|---------|------|-----------|-------|----|----|-----------|----------|-----------|

See accompanying notes.

F-5

---

## COMMUNICATIONS SUPPLY HOLDINGS, INC. &amp; SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|                                                                                             | Successor    |           | Predecessor  |
|---------------------------------------------------------------------------------------------|--------------|-----------|--------------|
|                                                                                             | Period from  |           | Period from  |
|                                                                                             | May 4, 2004  |           | December 27, |
| Year                                                                                        | through      |           | 2003 through |
| Ended                                                                                       | December 31, |           | May 3, 2004  |
| December 30,                                                                                | December 31, |           |              |
| 2005                                                                                        | 2004         |           |              |
| (Dollars in thousands)                                                                      |              |           |              |
| <b>Operating activities</b>                                                                 |              |           |              |
| Net income (loss)                                                                           | \$ 6,018     | \$ 6,803  | \$ (3,143)   |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |              |           |              |
| Depreciation and amortization                                                               | 9,007        | 1,587     | 692          |
| Deferred income taxes                                                                       | (949)        | 2,588     | (1,645)      |
| Amortization of deferred financing costs                                                    | 457          | 303       | 1,537        |
| Loss on sale of assets                                                                      | 54           |           |              |
| Compensation expense recognized on stock options                                            |              |           | 463          |
| Noncash interest accreted to subordinated notes                                             | 813          | 667       | 1,689        |
| Changes in operating assets and liabilities:                                                |              |           |              |
| Accounts receivable                                                                         | (2,199)      | (8,361)   | (2,290)      |
| Inventory                                                                                   | (12,833)     | 2,977     | (6,008)      |
| Prepaid expenses and other assets                                                           | (664)        | (5,024)   | 2,861        |
| Accounts payable                                                                            | 2,172        | 550       | 6,208        |
| Accrued expenses                                                                            | 3,611        | (2,435)   | 2,302        |
| Net cash provided by (used in) operating activities                                         | 5,487        | (345)     | 2,666        |
| <b>Investing activities</b>                                                                 |              |           |              |
| Additions to property and equipment                                                         | (1,447)      | (1,203)   | (837)        |
| Proceeds from sale of assets                                                                | 8            |           |              |
| Acquisition, net of cash acquired                                                           | (2,890)      | (197,092) |              |
| Net cash used in investing activities                                                       | (4,329)      | (198,295) | (837)        |
| <b>Financing activities</b>                                                                 |              |           |              |
| Repayments of stockholders' notes receivable                                                | 7            | 2         | 2            |
| Proceeds from issuance of common stock                                                      | 38           | 8,490     |              |
| Repurchase and retirement of treasury stock                                                 | (30)         |           |              |
| Proceeds from issuance of preferred stock                                                   | 344          | 75,533    |              |
| Proceeds from issuance of long-term debt                                                    |              | 85,050    |              |
| Proceeds from issuance of senior subordinated notes                                         |              | 41,000    |              |
| Payment of deferred financing costs                                                         | (16)         | (3,259)   |              |
| Revolving credit facility borrowings (repayments)                                           | 3,149        | (4,020)   | 8,700        |
| Term loan repayments                                                                        | (2,906)      | (1,937)   | (11,077)     |

Edgar Filing: WESCO INTERNATIONAL INC - Form 8-K

|                                                     |           |          |          |
|-----------------------------------------------------|-----------|----------|----------|
| Net cash provided by (used in) financing activities | 586       | 200,859  | (2,375)  |
| Net increase (decrease) in cash                     | 1,744     | 2,219    | (546)    |
| Cash at beginning of period                         | 2,219     |          | 3,279    |
| Cash at end of period                               | \$ 3,963  | 2,219    | \$ 2,733 |
| <b>Supplemental cash flow information</b>           |           |          |          |
| Interest paid                                       | \$ 10,063 | \$ 5,892 | \$ 2,449 |
| Income taxes paid                                   | \$ 4,831  | \$ 169   | \$ 1,473 |

See accompanying notes.

F-6

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DEVELOPMENT AND DESCRIPTION OF BUSINESS**

Communications Supply Holdings, Inc. ( Holdings ) was incorporated in Delaware in 2004 for the purpose of acquiring and holding ownership of Communications Supply Corporation ( CSC ). Effective May 4, 2004, CSC became a wholly owned subsidiary of Holdings via a Merger Transaction, which is described in Note 3. Holdings, on a consolidated basis with CSC, is referred to herein as the Company.

CSC was incorporated in Connecticut in 1977 and is a leading national distributor of wire, cable, network infrastructure, and low voltage specialty system products for data, voice, and security network communication applications. CSC sells its products through its 28 distribution centers and sales offices located throughout the continental United States.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The consolidated financial statements of the Company include the accounts of Holdings and its wholly owned operating subsidiary, CSC. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made in the prior years' financial statements to conform to the current year presentation.

The Company traditionally operates on a 52- to 53-week fiscal year ending on the last Friday in December.

The Company's results of operations for the period prior to its May 4, 2004 Merger Transaction (see Note 3) are presented as the results of operations of the Predecessor. The Company's results of operations, including the Merger Transaction and thereafter, are presented as the results of the Successor and include the period of May 4, 2004 through December 31, 2004, and the 52 weeks ended December 30, 2005.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

***Fair Value of Financial Instruments***

The Company's financial instruments include cash and cash equivalents, trade accounts receivable, accounts payable, preferred stock, and debt obligations. The carrying values of these financial instruments approximate their estimated fair values.

***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of accounts receivable. Credit risk on accounts receivable is minimized as a result of the large and diverse nature of the Company's customer base. No single customer represents greater than 5% of total accounts receivable. The Company

maintains an allowance for losses based on the expected collectibility of accounts receivable determined by past collection history and specific risks identified among uncollected accounts. Credit losses have historically been within management's expectations. The Company does not generally require collateral related to its accounts receivable but does have enforceable lien rights in certain circumstances.

F-7

---

## COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### *Receivables and Allowance for Doubtful Accounts*

The Company carries its accounts receivable at their face value, less applicable allowance for doubtful accounts. Regularly, the Company evaluates its accounts receivable and the allowance for doubtful accounts based upon a combination of customer specific conditions as well as the length of time the receivables are past due, historical experience, and existing economic conditions. In accordance with this policy, the allowance for doubtful accounts was \$1.7 million and \$2.0 million as of December 30, 2005 and December 31, 2004, respectively.

#### *Inventory*

Inventory consists primarily of finished goods and is stated at the lower of cost or market. Cost is determined by the average-cost method, and market is determined on the basis of estimated realizable values. Inventory reserves are recorded for obsolete or slow-moving inventory based on assumptions about future demand and marketability of products, inventory turns, and specific identification of items, such as product discontinuance.

#### *Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using straight-line and accelerated methods over the estimated useful lives of the respective assets, or in the case of leasehold improvements, over the shorter of the estimated useful life or the life of the lease, as follows:

|                                  |               |
|----------------------------------|---------------|
| Machinery and computer equipment | 3 to 7 years  |
| Furniture and fixtures           | 3 to 7 years  |
| Leasehold improvements           | 1 to 10 years |

Upon sale or retirement, the cost and related depreciation are removed from the respective accounts. Gains or losses resulting from dispositions are included in income or expenses. Betterments and renewals, which improve and extend the life of an asset, are capitalized; maintenance and repair costs are expensed.

#### *Long-Lived Assets*

In accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-lived Assets*, a long-lived asset (including amortizable identifiable intangibles) or asset group is tested for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. When such events occur, a comparison is made between the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group to the carrying amount of a long-lived asset or asset group. If this comparison indicates that there is an impairment, the amount of the impairment is typically calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on a weighted-average cost of capital, risk adjusted where appropriate, which represents the blended after-tax costs of debt and equity.

#### *Goodwill and Other Intangibles*

Statement of Financial Accounting Standards No. 142 (SFAS No. 142), *Goodwill and Other Intangible Assets*, requires goodwill to be tested for impairment on an annual basis or more frequently if an event occurs or conditions change that would more likely than not reduce the fair value of the reporting unit below the carrying value. We evaluate the recoverability of goodwill by estimating the future discounted cash flows of the businesses to which the goodwill relates. We use a rate corresponding to our cost of capital, risk adjusted where appropriate, in determining discounted cash flows. When estimated future discounted cash flows are less than the carrying value of the net assets (tangible and identifiable intangibles) and related goodwill, we

F-8

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

perform an impairment test to measure the amount of the impairment loss if any. Impairment losses, limited to the carrying value of goodwill, represent the excess of the carrying amount of a reporting unit's goodwill over the implied fair value of that goodwill. In determining the estimated future cash flows, we consider current and projected future levels of income based on management's plans for that business, as well as business trends, prospects and market and economic conditions.

SFAS No. 142 requires purchased intangible assets other than goodwill to be amortized over their useful lives unless these lives are determined to be indefinite. A trade name has been assigned an indefinite life as it was deemed that these trade names are currently anticipated to contribute cash flows to the Company indefinitely. Indefinite-lived intangible assets will not be amortized but are required to be evaluated at each reporting period to determine whether the indefinite useful life is appropriate.

We review indefinite-lived intangibles for impairment annually and whenever market or business events indicate there may be a potential impact on that intangible. For the trade name, the fair value is compared to the book value. Our predominant method of approximating fair value in determining whether an impairment exists is the relief-from-royalty approach. Fair value is represented by the present value of hypothetical royalty income over the remaining useful life. If the carrying amount of the asset exceeds its fair value, an impairment loss is recorded in an amount equal to that excess.

The Company completed its impairment tests as of December 30, 2005, and determined that no impairment exists.

***Deferred Financing Costs***

Deferred financing costs are amortized using the straight-line method, which approximates the effective interest method, as additional interest expense over the term of the related debt.

Total amortization of deferred financing costs was approximately \$0.5 million, \$0.3 million, and \$1.5 million for the year ended December 30, 2005, the period ended December 31, 2004, and the period ended May 3, 2004, respectively.

***Interest Rate Agreements***

The Company is exposed to the impact of fluctuating interest rates and may periodically utilize derivatives to manage this exposure. The Company's hedging policy and strategy is to structure its derivative transactions to be highly effective cash flow hedges. In accordance with Statement of Financial Accounting Standards No. 133 (SFAS No. 133), *Accounting for Derivative Instruments and Hedging Activities*, any resulting gains or losses from hedge ineffectiveness are reflected directly in income or expenses. Net payments for the cash flow hedges are recorded as interest expense for the appropriate period. The Company does not enter into interest rate transactions for speculative purposes.

***Revenue Recognition***

The Company recognizes sales when title transfers, which is upon shipment of product.

***Shipping and Handling Costs***

Shipping and handling costs of approximately \$9.6 million, \$6.2 million, and \$2.7 million are included in selling, general and administrative expenses in the statements of operations for the year ended December 30, 2005, the period ended December 31, 2004, and the period ended May 3, 2004, respectively. The Company records shipping and handling costs billed to customers in net sales.

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Income Taxes***

Provision for income taxes includes deferred taxes resulting from temporary differences in determining income for financial and U.S. income tax purposes. In accordance with Statement of Financial Accounting Standards No. 109 (SFAS No. 109), *Accounting for Income Taxes*, the Company establishes temporary differences based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

***Stock-Based Compensation***

Under the provisions of Statement of Financial Accounting Standards (SFAS No. 123), *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, an amendment of SFAS No. 123, the Company has elected to continue to apply the intrinsic value method of Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*, and its related interpretations in accounting for its stock-based compensation plans. In accordance with APB 25, compensation cost for the Company's fixed stock options issued were measured as the excess, if any, of the fair market price of the Company's stock at the date of the grant over the option exercise price. Any excess would be charged to operations over the vesting period. Accordingly, because the options were granted at market value, no compensation expense has been recognized in the consolidated statements of operations for the stock option plans.

Disclosure of pro forma information regarding net income is required by SFAS No. 123, and has been determined as if the Company has accounted for its stock options using SFAS No. 123. To value option grants in accordance with SFAS No. 123, the Company used the minimum value method. The following assumptions were utilized in the valuation for options granted.

|                          | <b>Successor</b>    | <b>Predecessor</b>  |
|--------------------------|---------------------|---------------------|
|                          | <b>Period from</b>  | <b>Period from</b>  |
| <b>Year</b>              | <b>May 4, 2004</b>  | <b>December 27,</b> |
| <b>Ended</b>             | <b>through</b>      | <b>2003 through</b> |
| <b>December 30,</b>      | <b>December 31,</b> | <b>May 3, 2004</b>  |
| <b>2005</b>              | <b>2004</b>         |                     |
| Risk-free interest rate  | 4.26%               | 4.72%               |
| Expected dividend yield  |                     | 4.00%               |
| Expected life of options | 6 years             | 6 years             |
|                          |                     | 8 years             |

The following table illustrates the effect on net income as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation:

|             | <b>Successor</b>   | <b>Predecessor</b> |
|-------------|--------------------|--------------------|
|             | <b>Period from</b> | <b>Period from</b> |
| <b>Year</b> | <b>May 4, 2004</b> |                    |

|                                                                                                                                          | <b>Ended<br/>December 30,<br/>2005</b> | <b>through<br/>December 31,<br/>2004<br/>(In thousands)</b> | <b>December 27,<br/>2003 through<br/>May 3, 2004</b> |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------------|------------------------------------------------------|
| Net income (loss), as reported                                                                                                           | \$ 6,018                               | \$ 6,803                                                    | \$ (3,143)                                           |
| Add stock-based compensation expense included in net income (loss), as reported, net of related tax effects                              |                                        |                                                             | 282                                                  |
| Less total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (28)                                   | (17)                                                        | (557)                                                |
| Pro forma net income (loss)                                                                                                              | \$ 5,990                               | \$ 6,786                                                    | \$ (3,418)                                           |

F-10

---

## COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

These pro forma effects of applying the provisions of SFAS No. 123 may not be representative of the net income of the Company in future years.

#### *New Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 123R (SFAS No. 123R), *Share-Based Payment*, which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models. The share-based compensation cost will be measured based on the fair value of the equity or liability instruments issued. Currently, the Company discloses pro forma compensation expense by calculating the stock option grants' fair value using the minimum value method and disclosing the impact on earnings in a note to the consolidated financial statements. Upon adoption, pro forma disclosure will no longer be an alternative. The Company will begin to apply SFAS 123R using the most appropriate fair value model beginning in fiscal year 2006. The Company will no longer be able to apply the minimum value method and must, therefore, adopt the prospective application method allowed under SFAS No. 123R. The impact of adoption of SFAS No. 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

### 3. MERGER TRANSACTIONS AND ACQUISITIONS

On May 3, 2004, CSC entered into a merger agreement (the Merger Agreement) with Holdings and its wholly owned subsidiary CSC Acquisition Inc. The Merger Agreement provided for the acquisition of all shares of CSC's then-outstanding common stock, the redemption of all outstanding preferred stock and accumulated dividends, payments to holders of vested options and warrants, and the repayment of all debt outstanding.

CSC Acquisition Inc. as then merged with, and into, CSC, with CSC continuing as a wholly owned subsidiary of Holdings. Holdings is controlled by affiliates of Harvest Partners, Inc. The completion of the aforementioned transactions constitutes the merger transaction (the Merger Transaction). Total consideration at the time of the close for the Merger Transaction was \$204.9 million, which excludes \$9.9 million of certain Merger Transaction related costs, including legal and investment banking fees, which have been classified as Merger Transaction expenses and interest expense in the Predecessor's statement of operations for the period ended May 3, 2004.

The Merger Transaction was financed by an \$80.1 million investment in preferred stock of Holdings and a \$9.0 million investment in the common stock of Holdings by affiliates of Harvest Partners, Inc., two minority co-investors, and management. Management's investment included \$5.1 million in the form of an exchange of a portion of management's ownership in the Predecessor's common stock. Additional financing was provided by the issuance of \$41.0 million in senior subordinated notes due in 2011 and warrants and borrowings under a new \$102.5 million senior secured credit facility, consisting of a \$77.5 million term loan and a \$25.0 million revolving credit facility, of which \$7.55 million was drawn at the time of the Merger Transaction. In 2005, an additional \$2.9 million was paid to the Sellers related to additional income tax benefits due them. This adjustment was treated as additional purchase price and was recorded as an adjustment to goodwill. In addition, goodwill was also adjusted based on a final valuation which resulted in the identification of certain intangible assets and an increase in the basis of certain fixed assets.



**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Merger Transaction was accounted for using the purchase method of accounting. The purchase price, including the adjustments described above, was allocated to the assets acquired and liabilities assumed as shown below. The figures presented reflect the 2005 final purchase price allocation (in thousands).

**Assets**

|                            |            |
|----------------------------|------------|
| Cash                       | \$ 2,733   |
| Accounts receivable        | 61,775     |
| Inventory                  | 49,811     |
| Prepaid expenses and other | 3,120      |
| Property and equipment     | 7,566      |
| Goodwill                   | 95,249     |
| Identifiable intangibles   | 43,150     |
| Other noncurrent assets    | 1,206      |
| Total assets required      | \$ 264,610 |

**Liabilities**

|                           |            |
|---------------------------|------------|
| Accounts payable          | \$ 29,163  |
| Accrued expenses          | 14,546     |
| Deferred income taxes     | 13,105     |
| Total liabilities assumed | \$ 56,814  |
| Net assets acquired       | \$ 207,796 |

The primary factors that contributed to the purchase price resulting in the recognition of goodwill include:

The Company's significant market presence as one of three national distributors of its product lines;

The Company's experienced work force; and

The Company's industry leading financial and operational performance.

**4. PROPERTY AND EQUIPMENT**

Property and equipment are summarized as follows:

**December 30,      December 31,**  
**2005                      2004**  
**(In thousands)**

Edgar Filing: WESCO INTERNATIONAL INC - Form 8-K

|                                  |    |         |    |         |
|----------------------------------|----|---------|----|---------|
| Machinery and computer equipment | \$ | 7,660   | \$ | 4,546   |
| Furniture and fixtures           |    | 1,244   |    | 646     |
| Leasehold improvements           |    | 1,108   |    | 719     |
| Construction in progress         |    | 92      |    | 136     |
|                                  |    | 10,104  |    | 6,047   |
| Less accumulated depreciation    |    | (4,917) |    | (1,546) |
|                                  | \$ | 5,187   | \$ | 4,501   |

The 2005 amounts reflect the final purchase price allocation related to the Company's merger transaction (see Note 3).

F-12

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. INTANGIBLE ASSETS**

The following table reflects the gross carrying value and accumulated amortization by asset class and is based upon the final purchase price allocation related to the Company's merger transaction (see Note 3).

|                                                 | <b>December 30, 2005</b>                                   |                     |                         |                                         |
|-------------------------------------------------|------------------------------------------------------------|---------------------|-------------------------|-----------------------------------------|
|                                                 | <b>Gross<br/>Carrying</b>                                  | <b>Accumulated</b>  | <b>Net<br/>Carrying</b> | <b>Weighted-<br/>Average<br/>Useful</b> |
|                                                 | <b>Value</b>                                               | <b>Amortization</b> | <b>Value</b>            | <b>Life</b>                             |
|                                                 | <b>(In thousands, except weighted-average useful life)</b> |                     |                         |                                         |
| Indefinite-lived intangible assets – trade name | \$ 7,900                                                   | \$                  | \$ 7,900                |                                         |
| Supplier and customer relationships             | 35,000                                                     | (5,517)             | 29,483                  | 13.1                                    |
| Other                                           | 250                                                        | (93)                | 157                     | 4.5                                     |
| Total                                           | \$ 43,150                                                  | \$ (5,610)          | \$ 37,540               |                                         |

The Company expects to record intangible amortization for each of the next fiscal years as follows:

|      |          |
|------|----------|
| 2006 | \$ 5,573 |
| 2007 | 5,573    |
| 2008 | 2,622    |
| 2009 | 1,107    |
| 2010 | 1,107    |

**6. GOODWILL**

The following table reflects the change in the carrying value of goodwill during the 2005 fiscal year:

|                                                    | <b>December 30,<br/>2005<br/>(In thousands)</b> |
|----------------------------------------------------|-------------------------------------------------|
| Carrying value of Goodwill as of December 31, 2004 | \$ 119,945                                      |
| Additional purchase price paid                     | 2,890                                           |
| Effect of final purchase price allocation          | (27,586)                                        |
| Carrying value of Goodwill as of December 30, 2005 | \$ 95,249                                       |

**7. LONG-TERM DEBT**

Long-term debt consists of the following:

|                                                                                             | <b>December 30,<br/>2005</b> | <b>December 31,<br/>2004</b> |
|---------------------------------------------------------------------------------------------|------------------------------|------------------------------|
|                                                                                             | <b>(In thousands)</b>        |                              |
| Revolving credit facility (interest rates ranging from 7.25% to 9.25% at December 30, 2005) | \$ 6,679                     | \$ 3,530                     |
| Term loan (interest rates ranging from 6.10% to 9.75% at December 30, 2005)                 | 72,656                       | 75,562                       |
| Senior subordinated notes, net of original issuance discount of \$1,278                     | 41,077                       | 40,264                       |
|                                                                                             | 120,412                      | 119,356                      |
| Less current portion                                                                        | (1,494)                      | (2,906)                      |
|                                                                                             | \$ 118,918                   | \$ 116,450                   |

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Effective March 3, 2006, the Company replaced its revolving credit facility and term loan with a new credit agreement which provides for funding of up to \$160 million. Borrowings under the new revolving credit facility are limited to \$30.0 million, are subject to the amount of the Company's eligible inventory, accounts receivable and uncleared check deposits, and expire on March 3, 2012, at which time all outstanding revolver borrowings are payable in full. Pursuant to the new term loan, \$25 million relates to a delayed draw available only upon consummation of a pending transaction for which the Company has signed a Letter of Intent. The new term loan is due in quarterly installments of \$262,500 on June 30, 2006, and \$325,000 from September 30, 2006 through December 31, 2011, with a final payment of \$122,587,500 due March 3, 2012. This assumes full borrowing under the delayed draw.

In 2004, the Company issued and sold senior subordinated notes (the Subordinated Notes), warrants to purchase 141,696 shares of common stock, and warrants to purchase 12,614 shares of Preferred Stock to certain private investors for proceeds of \$41.0 million. Those Subordinated Notes accrue interest at 14.0%, of which 12.0% is paid in cash on a quarterly basis and 2.0% is paid in-kind. Prepayments during the first five years since issuance are subject to a premium varying from 9% to 1% of the principal amount, which reduces each successive year. If the prepayment is due to a change of control, the premium is applicable for the first three years since issuance and range from 3% to 1%, which reduces each successive year. For the period ended December 30, 2005 and December 31, 2004, \$1,168,000 and \$542,000 of accumulated paid in-kind interest was accreted to the Subordinated Notes.

The warrants issued in conjunction with the Subordinated Notes are exercisable at any time through May 2014 at \$0.01 per share. The fair value of the warrants of \$1.4 million reduced the carrying value of the Subordinated Notes and subsequently will be accreted to the principal value of \$41.0 million through interest expense over the related term.

Effective March 3, 2006, the Company also entered into an amended and restated Securities Purchase Agreement (the Amendment). Under the Amendment, the Company conditionally sold an additional \$8 million of Subordinated Notes to existing note holders, the proceeds of which would be available only upon consummation of the pending transaction as noted above. The additional \$8 million of Subordinated Notes would accrue interest at 12.5%, of which 11.0% would be paid in cash on a quarterly basis and 1.5% would be paid in-kind. Pursuant to the Amendment, the Subordinated Notes maturity date was modified to November 2012, at which time all amounts outstanding, including paid in-kind interest, are due.

Borrowings made are collateralized by all of the Company's assets. The credit agreement requires the Company, among other things, to meet certain financial covenants and maintain financial ratios in such amounts and for such periods as set forth therein, and also restricts the payment of dividends. Interest accrues at a rate primarily equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin of 1.50% to 2.75%, which varies based upon the achievement of certain financial ratios. A commitment fee is payable quarterly based upon the unused portion of the revolver of 0.50% annually.

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The current portion of long-term debt on the balance sheet, the debt maturity schedule noted below, and the terms as described above reflect the terms of the new credit agreement and Amendment as well as payments required under the terms of the previous agreements prior to March 3, 2006. Maturities of long-term debt outstanding at December 30, 2005, including the fully amortized original issue discount of \$1.3 million on the Subordinated Notes, are as follows (in thousands):

| <b>Fiscal year ending</b> |          |
|---------------------------|----------|
| 2006                      | \$ 1,494 |
| 2007                      | 1,050    |
| 2008                      | 1,050    |
| 2009                      | 1,050    |
| 2010                      | 1,312    |
| 2011 and thereafter       | 115,734  |

The Company may use interest rate swaps to reduce its exposure to adverse fluctuations in interest rates. In 2004, the Company entered into interest rate agreements that effectively fix or cap, for a period of time, the LIBOR component of the interest rate on a portion of its floating rate debt. These instruments, described further below, have been designated as cash flow hedges related to the Company's floating rate term loan. There were no hedges or derivatives in place for the Predecessor periods presented herein.

At December 30, 2005, the Company had two interest rate swap agreements outstanding with an aggregate notional amount of \$18.8 million. These swap agreements obligate the Company to pay a fixed rate of approximately 3.85% through December 2007. At December 30, 2005, the Company had two interest rate cap agreements outstanding with an aggregate notional amount of \$17.6 million. These cap agreements obligate the Company to receive payments to the extent that LIBOR exceeds 5.0%, through December 2007.

At December 30, 2005, the fair market value of outstanding interest rate agreements was a \$0.2 million asset and was included in other assets. The impact of the interest rate agreements was to increase interest expense by \$0.2 million and \$0.3 million for the year ended December 30, 2005 and the period May 4, 2004 through December 31, 2004, respectively.

**8. COMMITMENTS AND CONTINGENCIES*****Operating Leases***

The Company has operating leases covering various office, warehouse, and other equipment rentals. A certain number of these are long-term operating leases which include rent escalation clauses. Most operating leases entered into for office and warehouse space contain renewal options. Future minimum lease payments for noncancelable operating leases as of December 30, 2005, are as follows (in thousands):

| <b>Fiscal year ending</b> |          |
|---------------------------|----------|
| 2006                      | \$ 3,980 |

|                     |       |
|---------------------|-------|
| 2007                | 3,421 |
| 2008                | 3,258 |
| 2009                | 2,787 |
| 2010                | 2,054 |
| 2011 and thereafter | 594   |

\$ 16,094

Rent expense for the year ended December 30, 2005, the period ended December 31, 2004, and the period ended May 3, 2004, totaled \$4.4 million, \$2.9 million, and \$1.4 million, respectively.

F-15

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. STOCKHOLDERS EQUITY**

***Redeemable Preferred Stock***

The Company has 804,459 shares of 8.0% Cumulative Redeemable Preferred Stock (the Preferred Stock) outstanding with a par value of \$0.01 per share. Dividends on the Preferred Stock are cumulative and recorded when declared. For the periods ended December 30, 2005 and December 31, 2004, there were \$10.6 million of dividends (\$13.18 per share) and \$4.3 million of dividends (\$5.33 per share), respectively, in arrears. The Preferred Stock is nonvoting and redeemable at the option of the Company at the original issue price of \$100 per share plus all accrued but unpaid dividends, which also represents the liquidation preference.

***Notes Receivable from Stockholders***

The notes receivable from stockholders bear interest at 6% to 8% per annum, are repayable in various installments through 2009, and are secured by preferred stock and common shares held.

***Stock-Based Compensation***

***Successor***

In May 2004, Holdings adopted the Communications Supply Holdings, Inc. 2004 Stock Incentive Plan (the Plan). The Compensation Committee of the Board of Directors of Holdings (the Committee) administers the Plan and selects eligible executives, employees, consultants, and directors of the Company to receive options. The Committee also will determine the number and type of shares of stock covered by options granted under the Plan, the terms under which options may be exercised, the exercise price of the options, and other terms and conditions of the options in accordance with the provisions of the Plan. If Holdings undergoes a change in control, as defined in the Plan, all outstanding time-based options become immediately exercisable, while the performance-based options may become immediately exercisable upon achievement of certain specified criteria described further below. The Committee may adjust outstanding options by substituting stock or other securities of any successor or another party to the change in control transaction, or cash out such outstanding options, in any such case, generally based on the consideration received by its stockholders in the transaction. Subject to particular limitations specified in the Plan, the Committee may amend or terminate the Plan. The Plan will terminate no later than ten years following its effective date; however, any options outstanding under the option plan will remain outstanding in accordance with their terms.

The Company is authorized to issue an aggregate of 2,500,000 shares of common stock in connection with the Plan. Options were granted at fair market value on the grant date and are exercisable under varying terms for up to ten years. The options granted under the Plan include the following:

Options to purchase shares of Holdings common stock at the fair market value on the date of grant, which will vest 20% annually on each of the first five anniversaries of the grant date (time-based options);

Options to purchase shares of Holdings common stock at the fair market value on the date of grant which will vest upon the occurrence of a liquidity event, as defined in the Plan, and the achievement of two specified internal rate of return and absolute return thresholds on the funds invested by Harvest Partners, Inc., vesting

50% upon achieving the first threshold and 100% upon achieving the second threshold, as defined.

F-16

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Stock option activity during the period May 4, 2004 through December 31, 2004 and the fiscal year ended December 30, 2005, is summarized below:

|                                                                | <b>December 30,<br/>2005</b> |                                                | <b>May 3,<br/>2004 - December 31,<br/>2004</b> |                                                |
|----------------------------------------------------------------|------------------------------|------------------------------------------------|------------------------------------------------|------------------------------------------------|
|                                                                | <b>Options</b>               | <b>Weighted-Average<br/>Exercise<br/>Price</b> | <b>Options</b>                                 | <b>Weighted-Average<br/>Exercise<br/>Price</b> |
| Outstanding at beginning of year:                              | 1,652,365                    | \$ 1.00                                        |                                                |                                                |
| Granted                                                        | 43,620                       | \$ 2.63                                        | 1,652,365                                      | \$ 1.00                                        |
| Canceled/expired                                               | (4,000)                      | \$ 1.00                                        |                                                |                                                |
| Outstanding at end of year                                     | 1,691,985                    | \$ 1.04                                        | 1,652,365                                      | \$ 1.00                                        |
| Exercisable at end of year                                     | 181,320                      | \$ 1.00                                        |                                                |                                                |
| Weighted-average fair value of options granted during the year |                              | \$ 0.59                                        |                                                | \$ 0.25                                        |

Options outstanding and exercisable as of December 30, 2005, by price range:

| <b>Exercise Prices</b> | <b>Shares</b> | <b>Outstanding<br/>Weighted-Average<br/>Remaining<br/>Life in<br/>Years</b> | <b>Weighted-Average<br/>Exercise<br/>Price</b> | <b>Shares</b> | <b>Exercisable<br/>Weighted-Average<br/>Exercise<br/>Price</b> |
|------------------------|---------------|-----------------------------------------------------------------------------|------------------------------------------------|---------------|----------------------------------------------------------------|
| \$1.00                 | 1,648,365     | 8.34                                                                        | \$ 1.00                                        | 181,320       | \$ 1.00                                                        |
| \$2.63                 | 43,620        | 9.60                                                                        | \$ 2.63                                        |               |                                                                |
|                        | 1,691,985     |                                                                             |                                                | 181,320       |                                                                |

*Predecessor*

The Predecessor had granted options to purchase common stock to key employees of the Company under its 1996 Option Plan for Key Employees (the 1996 Plan). The Predecessor was authorized to issue an aggregate of 2,550,000 shares of common stock in connection with the 1996 Plan. The stock options vested after five to seven years and were exercisable over an eight- to ten-year period from original grant dates. The vesting of certain classes of options were subject to acceleration if certain financial performance criteria were met or upon a change in control.

In connection with the Merger Transaction, all 1,847,463 exercisable options were exercised. The difference between the number of exercisable options at the time of the merger and the prior year end was due principally to the predetermined acceleration provisions of the Plan upon a change of control. The remaining outstanding options were canceled.

F-17

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the status of the 1996 Plan and changes during the year ended May 3, 2004, is as follows:

|                                                                  | <b>Options</b> | <b>2004<br/>Weighted-Average<br/>Exercise Price</b> |
|------------------------------------------------------------------|----------------|-----------------------------------------------------|
| Outstanding at beginning of period Exercised                     | 2,071,012      | \$ 2.80                                             |
| Canceled/expired                                                 | (1,847,463)    | 2.58                                                |
| Outstanding at end of period                                     | (223,549)      | 4.62                                                |
|                                                                  |                | \$                                                  |
| Exercisable at end of period                                     |                | \$                                                  |
| Weighted-average fair value of options granted during the period |                | \$                                                  |

**10. INCOME TAXES**

The significant components of the Company's deferred tax assets and liabilities were as follows:

|                                   | <b>As of<br/>December<br/>30,<br/>2005</b> | <b>As of December<br/>31,<br/>2004</b> |
|-----------------------------------|--------------------------------------------|----------------------------------------|
|                                   | <b>(In thousands)</b>                      |                                        |
| Deferred tax assets:              |                                            |                                        |
| Reserve for slow-moving inventory | \$ 2,288                                   | \$ 1,992                               |
| Allowance for doubtful accounts   | 691                                        | 772                                    |
| Inventory capitalization UNICAP   | 903                                        | 617                                    |
| NOL carryforward                  |                                            | 1,372                                  |
| Other accrued liabilities         | 842                                        | 1,142                                  |
| Other                             | 310                                        | 170                                    |
| Total deferred tax assets         | 5,034                                      | 6,065                                  |
| Deferred tax liabilities:         |                                            |                                        |
| Intangible assets                 | (11,661)                                   |                                        |
| Tradename                         | (3,124)                                    |                                        |
| Amortization of goodwill          | (4,493)                                    | (3,571)                                |
| Fixed asset depreciation          | (576)                                      |                                        |

Edgar Filing: WESCO INTERNATIONAL INC - Form 8-K

|                                       |             |          |
|---------------------------------------|-------------|----------|
| Total deferred tax liabilities        | (19,854)    | (3,571)  |
| Net deferred tax assets (liabilities) | \$ (14,820) | \$ 2,494 |

As of December 31, 2004, the Company had an NOL carryforward in the amount of \$3.5 million. This amount was fully utilized in 2005.

F-18

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of the provision for (benefit from) income taxes are as follows:

|           | <b>Year<br/>Ended<br/>December 30,<br/>2005</b> | <b>Period from<br/>May 4, 2004<br/>through<br/>December 31,<br/>2004<br/>(In thousands)</b> | <b>Period from<br/>December 27,<br/>2003 through<br/>May 3,<br/>2004</b> |
|-----------|-------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Current:  |                                                 |                                                                                             |                                                                          |
| Federal   | \$ 4,595                                        | \$ 1,791                                                                                    | \$                                                                       |
| State     | 947                                             | 445                                                                                         |                                                                          |
|           | 5,542                                           | 2,236                                                                                       |                                                                          |
| Deferred: |                                                 |                                                                                             |                                                                          |
| Federal   | (708)                                           | 2,214                                                                                       | (1,345)                                                                  |
| State     | (152)                                           | 550                                                                                         | (334)                                                                    |
|           | (860)                                           | 2,764                                                                                       | (1,679)                                                                  |
|           | \$ 4,682                                        | \$ 5,000                                                                                    | \$ (1,679)                                                               |

The Company's effective tax rate differs from the 35% federal statutory rate primarily due to state income taxes in all periods and nondeductible merger expenses in the period ended May 3, 2004.

**11. RELATED-PARTY TRANSACTIONS*****Successor***

The Company has a management agreement with Harvest Partners, Inc., under which Harvest Partners, Inc. received a one-time fee of \$4.0 million for structuring and executing the acquisition of the Company. This fee was considered additional purchase price. Additionally, Harvest Partners, Inc. receives an annual management fee of \$750,000 for financial advisory and strategic planning services rendered to the Company. The agreement also provides for Harvest Partners, Inc. to receive a transaction fee in connection with any financings, acquisitions, or divestitures of the Company based upon a percentage of the applicable transaction. Management fees of \$750,000 and \$500,000 were incurred for the year ended December 30, 2005, and the period ended December 31, 2004, respectively. The Company also reimburses Harvest Partners, Inc. for all out-of-pocket expenses.

***Predecessor***

The Predecessor had a management agreement with UBS Capital Partners. Pursuant to this agreement, fees totaling \$25,000 were incurred for the period ended May 3, 2004.

## **12. PROFIT-SHARING PLAN**

The Company and its Predecessor maintain a defined-contribution 401(k) profit-sharing plan for the benefit of eligible employees. The plan is subject to the provisions of ERISA. Pursuant to plan provisions, each participant may elect to defer a portion of annual compensation subject to certain limitations. Contributions to the plan are determined at the discretion of the Board of Directors. Discretionary profit-sharing contribution expenses of \$57,000 and \$67,000, respectively, were recorded in the periods ended December 31, 2004 and May 3, 2004. In addition, discretionary matching contributions equal to a percentage of participant contributions totaled \$596,000, \$368,000, and \$192,000 for the periods ended December 30, 2005, December 31, 2004, and May 3, 2004, respectively.

F-19

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. CONTINGENT LIABILITIES**

The Company is involved in legal proceedings, which arise in the ordinary course of its business. While any litigation contains an element of uncertainty, the Company believes that the outcome of such proceedings will not have a material adverse effect on its operations or financial condition.

**14. SUBSEQUENT EVENTS**

On March 3, 2006, the Company acquired all the assets of Calvert Wire and Cable Corporation, a privately held distributor of network infrastructure, and industrial wire and cable products. The purchase price was approximately \$33.4 million. The acquisition will be accounted for using the purchase method of accounting and the purchase price will be allocated to the assets and liabilities acquired upon finalization of a pending valuation.

On March 3, 2006, the Company also entered into various debt agreements including a new revolving credit facility, term loan and subordinated notes providing the Company with up to \$160 million in funds as described in Note 7.

**COMMUNICATION SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

|                                                                                                                                                    | June 30,<br>2006<br>(Unaudited) | December 30,<br>2005 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
|                                                                                                                                                    | (Dollars in thousands)          |                      |
| <b>ASSETS</b>                                                                                                                                      |                                 |                      |
| <b>Current Assets:</b>                                                                                                                             |                                 |                      |
| Cash and cash equivalents                                                                                                                          | \$ 23                           | 3,963                |
| Accounts receivable, net of allowance of \$2,060 in 2006 and \$1,746 in 2005                                                                       | 111,491                         | 72,335               |
| Inventory                                                                                                                                          | 85,386                          | 59,667               |
| Deferred income taxes                                                                                                                              | 5,720                           | 5,034                |
| Prepaid expenses and other assets                                                                                                                  | 6,635                           | 9,302                |
| Total current assets                                                                                                                               | 209,255                         | 150,301              |
| Property and equipment, net                                                                                                                        | 5,835                           | 5,187                |
| Intangible assets, net                                                                                                                             | 59,375                          | 37,540               |
| Goodwill                                                                                                                                           | 126,819                         | 95,249               |
| Deferred financing costs, net of accumulated amortization of \$2,579 in 2006 and \$761 in 2005                                                     | 2,399                           | 2,515                |
| Other assets                                                                                                                                       | 407                             | 376                  |
|                                                                                                                                                    | \$ 404,090                      | \$ 291,168           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                        |                                 |                      |
| <b>Current liabilities:</b>                                                                                                                        |                                 |                      |
| Accounts payable                                                                                                                                   | \$ 50,675                       | 31,885               |
| Accrued expenses                                                                                                                                   | 22,779                          | 15,712               |
| Current portion of long-term debt                                                                                                                  | 1,300                           | 1,494                |
| Total current liabilities                                                                                                                          | 74,754                          | 49,091               |
| Deferred income taxes                                                                                                                              | 27,389                          | 19,854               |
| Other non-current liabilities                                                                                                                      | 617                             |                      |
| Long-term debt, less current portion                                                                                                               | 138,216                         | 77,841               |
| Senior subordinated notes                                                                                                                          | 49,812                          | 41,077               |
| <b>Stockholders' equity:</b>                                                                                                                       |                                 |                      |
| Preferred stock, \$0.01 par value, 1,000,000 shares authorized, 851,423 and 804,459 shares issued and outstanding in 2006 and 2005, respectively   | 8                               | 8                    |
| Common stock, \$0.01 par value, 15,000,000 shares authorized, 9,139,012 and 9,012,500 shares issued and outstanding in 2006 and 2005, respectively | 91                              | 90                   |
| Additional paid-in capital                                                                                                                         | 96,014                          | 90,787               |
| Notes receivable from stockholders                                                                                                                 | (765)                           | (518)                |
| Accumulated other comprehensive income                                                                                                             | 162                             | 117                  |
| Retained earnings                                                                                                                                  | 17,792                          | 12,821               |

|            |            |
|------------|------------|
| 113,302    | 103,305    |
| \$ 404,090 | \$ 291,168 |

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

F-21

---

**COMMUNICATION SUPPLY HOLDINGS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME**

|                                                                               | <b>Six Months Ended</b>       |                |
|-------------------------------------------------------------------------------|-------------------------------|----------------|
|                                                                               | <b>June 30,</b>               | <b>July 1,</b> |
|                                                                               | <b>2006</b>                   | <b>2005</b>    |
|                                                                               | <b>(Unaudited)</b>            |                |
|                                                                               | <b>(Dollars in thousands)</b> |                |
| Net Sales                                                                     | \$ 284,824                    | \$ 207,815     |
| Cost of sales                                                                 | 215,040                       | 162,243        |
| Gross Profit                                                                  | 69,784                        | 45,572         |
| Selling, general, and administrative expenses                                 | 46,547                        | 31,381         |
| Depreciation and amortization                                                 | 5,228                         | 1,116          |
| Income from operations                                                        | 18,009                        | 13,075         |
| Interest expense                                                              | 9,520                         | 6,036          |
| Income before provision for income taxes                                      | 8,489                         | 7,039          |
| Provision for income taxes                                                    | 3,518                         | 2,745          |
| Net income                                                                    | 4,971                         | 4,294          |
| Other comprehensive income, net of tax:                                       |                               |                |
| Fair value change in interest rate derivatives classified as cash flow hedges | 45                            |                |
| Total Other Comprehensive Income                                              | \$ 5,016                      | \$ 4,294       |

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

**COMMUNICATION SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                             | <b>For the Six Months<br/>Ended</b> |                         |
|---------------------------------------------------------------------------------------------|-------------------------------------|-------------------------|
|                                                                                             | <b>June 30,<br/>2006</b>            | <b>July 1,<br/>2005</b> |
|                                                                                             | <b>(Unaudited)</b>                  |                         |
|                                                                                             | <b>(Dollars in thousands)</b>       |                         |
| <b>Operating Activities</b>                                                                 |                                     |                         |
| Net Income                                                                                  | \$ 4,971                            | \$ 4,294                |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                     |                         |
| Depreciation and amortization                                                               | 5,228                               | 1,088                   |
| Deferred income taxes                                                                       | (1,750)                             | 3,570                   |
| Amortization of deferred financing costs                                                    | 1,819                               | 228                     |
| Loss on sale of assets                                                                      | 10                                  | 8                       |
| Compensation expense recognized on stock options                                            |                                     |                         |
| Noncash interest accreted to subordinated notes                                             | 735                                 | 510                     |
| Changes in operating assets and liabilities:                                                |                                     |                         |
| Accounts Receivable                                                                         | (21,305)                            | (208)                   |
| Inventory                                                                                   | (12,907)                            | (3,460)                 |
| Prepaid expenses and other assets                                                           | 3,992                               | 4,032                   |
| Accounts payable                                                                            | 8,565                               | (453)                   |
| Accrued Expenses                                                                            | 4,773                               | (4,758)                 |
| Net cash (used in) provided by operating activities                                         | (5,869)                             | 4,851                   |
| <b>Investing Activities</b>                                                                 |                                     |                         |
| Additions to property and equipment                                                         | (525)                               | (690)                   |
| Proceeds from sale of assets                                                                | 5                                   | 47                      |
| Acquisitions, net of cash acquired                                                          | (69,011)                            | (3,542)                 |
| Net cash used in investing activities                                                       | (69,531)                            | (4,184)                 |
| <b>Financing Activities</b>                                                                 |                                     |                         |
| Issuance of stockholder's notes receivable                                                  | (250)                               |                         |
| Repayment of stockholder's notes receivable                                                 | 3                                   | 4                       |
| Proceeds from issuance of common stock                                                      | 539                                 |                         |
| Repurchase and retirement of treasury stock                                                 | (160)                               | (10)                    |
| Proceeds from issuance of preferred stock                                                   | 4,849                               |                         |
| Proceeds from issuance of long-term debt                                                    | 58,313                              |                         |
| Proceeds from issuance of subordinated notes                                                | 8,000                               |                         |
| Payment of deferred financing costs                                                         | (1,702)                             |                         |
| Revolver credit facility net borrowings                                                     | 3,099                               | 210                     |
| Term loan payments                                                                          | (1,231)                             | (1,938)                 |
| Net cash provided by (used in) financing activities                                         | 71,460                              | (1,734)                 |

|                             |         |          |
|-----------------------------|---------|----------|
| Net (decrease) in cash      | (3,940) | (1,067)  |
| Cash at beginning of period | 3,963   | 2,219    |
| Cash at end of period       | \$ 23   | \$ 1,152 |

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

F-23

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. DEVELOPMENT AND DESCRIPTION OF BUSINESS**

CSC was incorporated in Connecticut in 1977 and is a leading national distributor of low voltage network infrastructure and industrial wire and cable supporting advanced connectivity for voice and data communications, access control, security surveillance, and building automation. CSC sells its products through its 32 distribution centers and sales offices located throughout the continental United States.

Communications Supply Holdings, Inc. ( Holdings ) was incorporated in Delaware in 2004 for the purpose of acquiring and holding ownership of Communications Supply Corporation ( CSC ). Effective May 4, 2004, CSC became a wholly owned subsidiary of Holdings via a Merger Transaction.

Holdings, on a consolidated basis with CSC, Calvert Wire & Cable Corporation and Liberty Wire and Cable, Inc. both acquired in 2006 (see Note 4) are collectively referred to herein as the Company.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The consolidated financial statements of the Company include the accounts of Holdings and its wholly owned operating subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made in the prior year's financial statements to conform to the current year presentation.

The Company traditionally operates on a 52- to 53-week fiscal year ending on the last Friday in December.

***Recent Accounting Pronouncements***

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 ( FIN 48 ). This statement clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Consistent with its requirements, the Company will adopt FIN 48 for its fiscal year beginning December 31, 2006. The Company is in process of evaluating the effect that implementation of FIN 48 will have on its financial position, results of operations and cash flows.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**3. STOCKHOLDERS' EQUITY**

***Redeemable Preferred Stock***

As of December 30, 2005 the Company had 804,459 shares of 8.0% Cumulative Redeemable Preferred Stock (the Preferred Stock) outstanding with a par value of \$0.01 per share. During the first six months of 2006, the Company issued 48,492 shares which include 27,000 shares as purchase consideration for the acquisition of Calvert Wire & Cable Corp, and repurchased 1,528 shares from former employees of the Company. Dividends on the Preferred Stock are cumulative and recorded when declared. For the periods

F-24

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ended June 30, 2006 and December 30, 2005 there were \$14.1 million of dividends (14.24 per share) and \$10.6 million of dividends (\$13.18 per share), respectively, in arrears.

***Common Stock***

As of December 30, 2005 the Company had 9,012,500 shares of Common Stock outstanding with a par value of \$0.01 per share. During the first six months of 2006, the Company issued 143,680 shares which include 80,000 shares as purchase consideration for the acquisition of Calvert Wire & Cable Corp, and repurchased 17,168 shares from former employees of the Company.

***Stock-Based Compensation***

In May 2004, Holdings adopted the Communications Supply Holdings, Inc. 2004 Stock Incentive Plan (the Plan). The Compensation Committee of the Board of Directors of Holdings (the Committee) administers the Plan and select eligible executives, employees, consultants, and directors of the Company to receive options. The Committee also will determine the number and type of shares of stock covered by options granted under the Plan, the terms under which options may be exercised, the exercise price of the options, and other terms and conditions of the options in accordance with the provisions of the Plan. If Holdings undergoes a change in control, as defined in the Plan, all outstanding time-based options become immediately exercisable, while the performance-based options may become immediately exercisable upon achievement of certain specified criteria described further below. The Committee may adjust outstanding options by substituting stock or other securities of any successor or another party to the change in control transaction, or cash out such outstanding options, in any such case, generally based on the consideration received by its stockholders in the transaction. Subject to particular limitations specified in the Plan, the Committee may amend or terminate the Plan. The Plan will terminate no later than ten years following its effective date; however, any options outstanding under the option plan will remain outstanding in accordance with their terms.

The Company is authorized to issue an aggregate of 2,500,000 shares of common stock in connection with the Plan. Options were granted at fair market value on the grant date and are exercisable under varying terms for up to ten years. The options granted under the Plan include the following:

Options to purchase shares of Holdings common stock at the fair market value on the date of grant, which will vest 20% annually on each of the first five anniversaries of the grant date (time-based options);

Options to purchase shares of Holdings common stock at the fair market value on the date of grant which will vest upon the occurrence of a liquidity event, as defined in the Plan, and the achievement of two specified internal rate of return and absolute return thresholds on the funds invested by Harvest Partners, Inc., vesting 50% upon achieving the first threshold and 100% upon achieving the second threshold, as defined.

In December 2004, The Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), *Share Based Payment*. SFAS 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements at fair value on date of grant. Compensation cost is recognized over the service period for awards expected to vest.

The Company adopted SFAS 123(R) on December 31, 2005 using the prospective transition method which requires nonpublic companies that had previously measured compensation costs under SFAS No. 123 using the minimum value method to continue to account for equity awards outstanding at the date of adoption in the same manner as they had been accounted for prior to adoption. For all awards granted, modified or settled after the date of adoption, the Company will recognize cost based on the grant-date fair market value estimated in accordance with the provisions of SFAS 123(R).

F-25

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the six months ended June 30, 2006 the Company granted 147,704 stock options to employees. The Black Scholes option-pricing model was used to estimate the fair value of these option awards using the following weighted average assumptions for the six months ended June 30, 2006:

|                          |         |
|--------------------------|---------|
| Expected life of options | 6 years |
| Volatility               | 42%     |
| Risk-free rate           | 5.1%    |
| Dividend Yield           |         |

**Expected Life of Options** The Company does not have an extensive historical experience with respect to exercise behavior for its options. The expected life of options was estimated on what was considered a reasonable estimate in relation to exercise behavior experienced by similar private-equity owned entities.

**Volatility** The Company does not have publicly traded equity and therefore does not have historical data regarding the volatility of its common stock. The expected volatility used for 2006 is based on volatility of similar entities, referred to as guideline companies.

**Risk-Free Rate** The risk-free interest rate is based on yields for the six year U.S. Treasury Bill.

**Dividend Yield** The dividend yield on the Company's stock is assumed to be zero since the Company has not paid dividends and has no current plans to do so in the future.

The resulting fair value of options issued during the first six months of 2006 was approximately \$269,000 and will be amortized to expense on a straight line basis over the five year vesting period of the options. The compensation expense for the six months ended June 30, 2006 was insignificant.

Prior to the adoption of SFAS 123(R), the Company elected to apply the intrinsic value method of Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations in accounting for its stock-based compensation plans. In accordance with the APB Opinion No. 25, compensation cost of stock options issued were measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the option exercise price and was charged to operations over the vesting period. Accordingly, because the options were granted at market value, no compensation expense has been recognized in the consolidated statement of operations for the six months ended July 1, 2005.

Disclosure of pro forma information regarding net income is required by SFAS 123 and has been determined as if the Company had accounted for its stock options using SFAS 123. To value these options in accordance with SFAS 123, the Company used the minimum value method. The resulting compensation expense had the Company applied the fair value recognition provisions of SFAS 123 was insignificant for the six months ended July 1, 2005.

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth a summary of the stock option activity and related information during the six months ended June 30, 2006:

|                                                                  | <b>Options</b> | <b>June 30,<br/>2006</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> |
|------------------------------------------------------------------|----------------|--------------------------|-----------------------------------------------------|
| Outstanding as of December 30, 2005:                             | 1,691,985      | \$                       | 1.04                                                |
| Exercisable                                                      | 181,320        | \$                       | 1.00                                                |
| Non-vested                                                       | 1,510,665      | \$                       | 1.05                                                |
| Outstanding as of December 30, 2005:                             | 1,691,985      |                          |                                                     |
| Granted                                                          | 348,553        | \$                       | 3.75                                                |
| Canceled                                                         | (13,000)       | \$                       | 1.00                                                |
| Outstanding as of June 30, 2006                                  | 2,027,538      | \$                       | 1.51                                                |
| Exercisable as of June 30, 2006                                  | 359,450        | \$                       | 1.00                                                |
| Non Vested                                                       | 1,668,088      | \$                       | 1.62                                                |
| Weighted-average fair value of options granted during the period | \$ 1.82        |                          |                                                     |

Options outstanding and exercisable as of June 30, 2006 and related information is outlined below:

| <b>Exercise Prices</b> | <b>Shares</b> | <b>Outstanding<br/>Weighted-<br/>Average<br/>Remaining<br/>Life in<br/>Years</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Shares</b> | <b>Exercisable<br/>Weighted-<br/>Average<br/>Exercise<br/>Price</b> |
|------------------------|---------------|----------------------------------------------------------------------------------|-----------------------------------------------------|---------------|---------------------------------------------------------------------|
| \$1.00                 | 1,635,365     | 7.74                                                                             | \$ 1.00                                             | 359,450       | \$ 1.00                                                             |
| \$2.63                 | 43,620        | 9.00                                                                             | \$ 2.63                                             |               |                                                                     |
| \$3.75                 | 348,553       | 9.81                                                                             | \$ 3.75                                             |               |                                                                     |
|                        | 2,027,538     |                                                                                  |                                                     | 359,450       |                                                                     |

As of June 30, 2006, the intrinsic value of awards exercisable and awards unvested was approximately \$988,500 and \$3,553,000, respectively.

The remaining unrecognized compensation cost related to unvested stock awards at June 30, 2006 was approximately \$416,000 and the weighted-average period of time over which this cost will be recognized is 4.1 years.

#### 4. ACQUISITIONS

##### **Acquisition of Calvert Wire & Cable Corporation**

On March 3, 2006, the Company acquired all the assets of Calvert Wire & Cable Corporation ( Calvert ) a privately held distributor of communications infrastructure products, including cable, fiber optics, network electronics and industrial wire and cable headquartered in Cleveland, Ohio. The results of operations for Calvert have been included the Company's operating results since March 3, 2006. Calvert provides strategic expansion for the company, particularly into the Ohio River Valley, as well as expanded product offerings for both Calvert and the Company's customers.

F-27

---

## COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The purchase price paid by the Company, including transaction related fees, was approximately \$32.9 million. The purchase was funded primarily through the Company's term loan facility as well as \$3 million of common and preferred stock. Additional consideration may be paid to Calvert if certain performance targets are achieved as of the first and second anniversary date of the acquisition. If such performance targets are met, consideration paid will be treated as additional purchase price. The primary factors contributing to the recognition of goodwill from this transaction include Calvert's significant strength in its geographic markets, strength of its management team, tenure and technical expertise of its sales force and strong financial and operating performance. The associated goodwill from this transaction is deductible for income tax purposes.

#### Acquisition of Liberty Wire & Cable, Inc.

On May 5, 2006, the Company acquired all the outstanding stock of Liberty Wire & Cable, Inc. (Liberty) a privately held provider of connectivity and infrastructure products to both the residential and commercial professional audio/video markets. The acquisition gives the Company a strong platform within the growing residential and commercial audio, video and broadcast market segments. The results of operations for Liberty have been included in the Company's operating results since May 5, 2006. The acquisition provides the Company with a complete product portfolio that supports network convergence; voice, data, security, and now audio/video solutions. Liberty is headquartered in Colorado Springs, Colorado.

The purchase price paid by the Company, including transaction fees, was approximately \$36.1 million. The purchase was funded through the Company's term loan facility and the issuance of additional subordinated notes. Further consideration may be paid to Liberty management if certain performance targets are achieved. If such performance targets are met, consideration paid will be treated as additional purchase price. The primary factors contributing to the recognition of goodwill from this transaction include the company's recognized industry leadership within the professional audio/video market, strength of its management team and experience of work force coupled with strong financial and operating performance.

The acquisitions of Calvert and Liberty were accounted for under the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*. Accordingly, the purchase price has been allocated based on the fair value of assets acquired and liabilities assumed. The Company utilized an independent appraisal for the valuation of fixed and intangible assets acquired in these transactions. The purchase price in excess of the fair market value of the net assets acquired was recorded as goodwill as of the effective date of the acquisitions.

The allocation of assets acquired and liabilities assumed for the 2006 acquisitions is summarized below and is preliminary, pending the finalization of the Company's independent valuations noted above and finalization of purchase price related to accounts receivable and inventory for the Calvert acquisition. The Company may invoke certain puts back to the prior Calvert ownership related to the receivables and inventory on hand as of the acquisition date. The purchase accounting is expected to be completed by the end of fiscal year 2006.

## COMMUNICATIONS SUPPLY HOLDINGS, INC. &amp; SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Assets                       | Calvert Wire &<br>Cable<br>Corporation | Liberty Wire &<br>Cable, Inc. |
|------------------------------|----------------------------------------|-------------------------------|
|                              | (In thousands)                         |                               |
| Cash                         | \$ 49                                  | \$                            |
| Accounts receivable          | 11,003                                 | 6,847                         |
| Inventory                    | 6,354                                  | 6,458                         |
| Prepaid expenses and other   | 659                                    | 564                           |
| Property and equipment       | 385                                    | 1,369                         |
| Goodwill                     | 15,295                                 | 16,162                        |
| Identifiable Intangibles     | 5,185                                  | 20,260                        |
| Deferred Income Taxes        | 18                                     | 192                           |
| Other noncurrent assets      |                                        | 11                            |
| Total assets acquired        | \$ 38,948                              | \$ 51,863                     |
| <b>Liabilities</b>           |                                        |                               |
| Accounts payable             | \$ 4,433                               | \$ 5,792                      |
| Accrued expenses             | 1,058                                  | 1,120                         |
| Deferred income taxes        |                                        | 8,678                         |
| Other noncurrent liabilities | 525                                    | 145                           |
| Total liabilities assumed    | \$ 6,016                               | \$ 15,735                     |
| Net assets acquired          | \$ 32,932                              | \$ 36,128                     |

## 5. IDENTIFIABLE INTANGIBLES

The following table reflects the gross carrying value and accumulated amortization by asset class of identifiable intangibles:

|  | As of June 30, 2006        |                                               |                          | Weighted<br>Average<br>Useful<br>Life |
|--|----------------------------|-----------------------------------------------|--------------------------|---------------------------------------|
|  | Gross<br>Carrying<br>Value | Accumulated<br>Amortization<br>(In thousands) | Net<br>Carrying<br>Value |                                       |

Indefinite-lived intangible assets

Edgar Filing: WESCO INTERNATIONAL INC - Form 8-K

|                                            |    |        |    |         |    |        |      |
|--------------------------------------------|----|--------|----|---------|----|--------|------|
| Tradenames                                 | \$ | 21,500 | \$ |         | \$ | 21,500 |      |
| <b>Intangibles Subject to Amortization</b> |    |        |    |         |    |        |      |
| Supplier relationships                     | \$ | 20,300 | \$ | (1,661) | \$ | 18,639 | 16.8 |
| Customer relationships                     |    | 25,700 |    | (7,261) |    | 18,439 | 3.7  |
| Non-compete                                |    | 775    |    | (179)   |    | 596    | 2.6  |
| Other                                      |    | 320    |    | (119)   |    | 201    | .6   |
| Total                                      | \$ | 68,595 | \$ | (9,220) | \$ | 59,375 |      |

F-29

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company expects to record intangible amortization for the balance of 2006 and the next five fiscal years as follows (in thousands):

|              |                   |          |
|--------------|-------------------|----------|
| July 1, 2006 | December 29, 2006 | \$ 4,283 |
| 2007         |                   | \$ 8,157 |
| 2008         |                   | \$ 5,208 |
| 2009         |                   | \$ 2,324 |
| 2010         |                   | \$ 2,050 |
| 2011         |                   | \$ 2,050 |

**6. GOODWILL**

The following table reflects the change in the carrying value of goodwill during the period ended June 30, 2006 (in thousands):

|                                                    |            |
|----------------------------------------------------|------------|
| Carrying Value of Goodwill as of December 30, 2005 | \$ 95,249  |
| Acquisitions                                       | 31,570     |
| Carrying Value of Goodwill as of June 30, 2006     | \$ 126,819 |

**7. LONG-TERM DEBT**

Long-term debt consists of the following:

|                                                                                         | <b>June 30,<br/>2006</b> | <b>December 30,<br/>2005</b> |
|-----------------------------------------------------------------------------------------|--------------------------|------------------------------|
|                                                                                         | <b>(In thousands)</b>    |                              |
| Revolving credit facility (interest rates ranging from 9.25% to 10.0% at June 30, 2006) | \$ 9,778                 | \$ 6,679                     |
| Term loan (interest rates ranging from 9.75% to 10.0% at June 30, 2006)                 | 129,738                  | 72,656                       |
| Senior subordinated notes, net of original issuance discount of \$1,278                 | 49,812                   | 41,077                       |
|                                                                                         | 189,328                  | 120,412                      |
| Less current portion                                                                    | (1,300)                  | (1,494)                      |
|                                                                                         | \$ 188,028               | \$ 118,918                   |

Effective March 3, 2006, the Company replaced its revolving credit facility and term loan with a new credit agreement which provides for funding of up to \$160 million. Borrowings under the new revolving credit facility are limited to \$30.0 million, are subject to the amount of the Company's eligible inventory, accounts receivable and uncleared check deposits, and expire on March 3, 2012, at which time all outstanding revolver borrowings are payable in full. The new term loan is due in quarterly installments of \$325,000 from September 30, 2006 through December 31, 2011 with final payment of \$122,587,500 due March 3, 2012.

In 2004, the Company issued and sold senior subordinated notes (the "Subordinated Notes"), warrants to purchase 141,696 shares of common stock, and warrants to purchase 12,614 shares of Preferred Stock to certain private investors for proceeds of \$41.0 million. These Subordinated Notes accrue interest at 14.0%, of which 12.0% is paid in cash on a quarterly basis and 2.0% is paid-in-kind. Prepayments during the first five years since issuance are subject to a premium varying from 9% to 1% of the principal amount, which reduces each successive year. If the prepayment is due to a change of control, the premium is applicable for the first three years since issuance and range from 3% to 1%, which reduces each successive year. For the period

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ended June 30, 2006 and December 30, 2005, \$654,027 and \$1,168,000 of accumulated paid-in-kind interest was accreted to the Subordinated Notes.

The warrants issued in conjunction with the Subordinated Notes are exercisable at any time through May 2014 at \$0.01 per share. The fair value of the warrants of \$1.4 million reduced the carrying value of the Subordinated Notes and subsequently will be accreted to the principal value of \$41.0 million through interest expense over the related term.

Effective March 3, 2006, The Company also entered into an amended and restated Securities Purchase Agreement (the Amendment ). Under the Amendment, the Company conditionally sold an additional \$8 million of Subordinated Notes to existing note holders, the proceeds of which would be available only upon consummation of the pending transaction as described above. The additional \$8 million of Subordinated Notes would accrue interest at 12.5% of which 11.0% would be paid in cash on a quarterly basis and 1.5% would be paid-in-kind. Pursuant to the Amendment, the Subordinated Notes maturity date was modified to November 2012, at which time all amounts outstanding, including paid-in-kind interest, are due.

Borrowings made are collateralized by all of the Company's assets. The credit agreement requires the Company, among other things, to meet certain financial covenants and maintain financial ratios in such amounts and for such periods as set forth therein, and also restricts the payment of dividends. Interest accrues at a rate primarily equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin of 1.50% to 2.75%, which varies based upon the achievement of certain financial ratios. A commitment fee is payable quarterly based upon the unused portion of the revolver of 0.50% annually.

The current portion of long-term debt on the balance sheet, the debt maturity schedule noted below, and the terms as described above reflect the terms of the new credit agreement and Amendment as well as payments required under the terms of the previous agreements prior to March 3, 2006.

The Company may use interest rate swaps to reduce its exposure to adverse fluctuations in interest rates. The Company has entered into interest rate agreements that effectively fix the LIBOR component of the interest rate on a portion of its floating rate debt interest rates, within a certain range for a designated period of time.

At June 30, 2006, the company had two interest rate swap agreements outstanding with an aggregate notional of \$38.9 million. These swap agreements obligate the Company to pay a weighted average fixed rate of approximately 5.28% through June 30, 2009. At June 30, collar agreements outstanding both with notional of approximately \$25.9 million. These collar agreements, which extend through December 2009, obligate the Company to receive payments to the extent that LIBOR exceeds 6.00% and make payments to the extent the LIBOR rate falls below a range of 3.375% - 5.020%.

At June 30, 2006, the fair market value of outstanding interest rate derivative agreements was \$0.2 million.

Total amortization of deferred financing costs was approximately \$1.8 million and \$0.2 million, for the six months ended June 30, 2006 and July 1, 2005, respectively. The six months ended June 30, 2006 includes the write-off of deferred financing costs totaling \$1.6 million related to the Company's prior credit facility.

## 8. INCOME TAXES

The Company's effective income tax rate differs from the 35% U.S. federal statutory rate principally due to state income taxes and permanent differences.

F-31

---

**COMMUNICATIONS SUPPLY HOLDINGS, INC. & SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. RELATED-PARTY TRANSACTIONS**

The Company has a management agreement with Harvest Partners, LLC ( Harvest ). Pursuant to this agreement Harvest receives an annual management fee of \$750,000 for financial advisory and strategic planning services rendered to the Company. The agreement also provides for Harvest to receive a transaction fee in connection with any financings, acquisitions, or divestitures of the Company. Management fees of \$375,000 were incurred and paid during the six months ended June 30, 2006 and July 1, 2005. Additionally, Harvest was paid \$1.3 million during the six months ended June 30, 2006 related to the execution of the Company's new term and revolving credit facility and subordinated debt as well as advisory and strategic planning services provided in conjunction with the Calvert and Liberty acquisitions. The Company also reimburses Harvest for out-of-pocket expenses.

The Company paid \$1.1 million to Shea & Associates, Inc. for strategic consulting services provided in conjunction with the acquisitions of Calvert Wire & Cable Corporation and Liberty Wire & Cable, Inc. The principal of Shea & Associates, Inc. is a shareholder of the Company.

The company leases its Brook Park, Ohio and Akron, Ohio warehouse and office facilities for its Calvert subsidiary the landlords of which are entities controlled by the President of Calvert or related family members. The lease costs are at a market cost. The Company paid approximately \$133,000 for the lease of these facilities from March 3, 2006, the date of the Calvert acquisition, through June 30, 2006.

**10. CONTINGENT LIABILITIES**

The Company is involved in legal proceedings, which arise in the ordinary course of its business. While any litigation contains an element of uncertainty, the Company believes that the outcome of such proceedings will not have a material adverse effect on its operations or financial condition.

**11. SUBSEQUENT EVENTS**

On October 3, 2006, the Company announced that Harvest, the Company's principal owners and stockholders representative had entered into a definitive agreement with WESCO Distribution, Inc. ( WESCO ) whereby WESCO would acquire the Company from Harvest. The transaction is subject to certain conditions including regulatory approvals required under the Hart-Scott-Rodino Act. The transaction is expected to close in early November.

SIGNATURE

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

WESCO INTERNATIONAL, INC.

By: /s/ Stephen A. Van Oss  
Stephen A. Van Oss  
Senior Vice President and Chief  
Financial and Administrative Officer

Dated: October 25, 2006