WESCO INTERNATIONAL INC
Form 10-Q
August 04, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-14989
WESCO International, Inc.
(Exact name of registrant as specified in its charter)

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

(412) 454-2200
(Registrant's telephone number, including area code)
Not applicable.
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of August 3, 2017, 47,973,171 shares of common stock, $0.01 par value, of the registrant were outstanding.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

Table of Contents

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

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

	As of June 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$87,799	$110,131
Trade accounts receivable, net of allowance for doubtful accounts of $23,061 and $22,007 in 2017 and 2016, respectively	1,144,978	1,034,402
Other accounts receivable	69,321	85,019
Inventories	866,301	821,441
Prepaid expenses and other current assets	137,146	121,464
Total current assets	2,305,545	2,172,457
Property, buildings and equipment, net of accumulated depreciation of $268,723 and $259,126 in 2017 and 2016, respectively	155,203	157,607
Intangible assets, net of accumulated amortization of $200,755 and $178,813 in 2017 and 2016, respectively	380,426	393,362
Goodwill	1,741,540	1,720,714
Other assets	40,957	46,844
Total assets	$4,623,671	$4,490,984
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$768,997	$684,721
Accrued payroll and benefit costs	37,830	49,250
Short-term debt	23,972	20,920
Current portion of long-term debt	1,221	1,218
Bank overdrafts	29,535	29,384
Other current liabilities	102,851	111,304
Total current liabilities	964,406	896,797
Long-term debt, net of debt discount and debt issuance costs of $15,291 and $17,278 in 2017 and 2016, respectively	1,334,542	1,363,135
Deferred income taxes	165,689	158,009
Other noncurrent liabilities	63,928	63,031
Total liabilities	$2,528,565	$2,480,972
Commitments and contingencies (Note 8)		
Stockholders’ equity:		
Preferred stock, $.01 par value; 20,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.01 par value; 210,000,000 shares authorized, 59,033,859 and 58,817,781 shares issued and 47,972,383 and 48,611,497 shares outstanding in 2017 and 2016, respectively	590	588
Class B nonvoting convertible common stock, $.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2017 and 2016, respectively	43	43
Additional capital	991,750	986,020
Retained earnings	2,044,719	1,956,532

Treasury stock, at cost; 15,400,907 and 14,545,715 shares in 2017 and 2016, respectively	(596,659)	(542,537)
Accumulated other comprehensive loss	(342,164)	(387,365)
Total WESCO International, Inc. stockholders' equity	2,098,279	2,013,281
Noncontrolling interests	(3,173)	(3,269)
Total stockholders’ equity	2,095,106	2,010,012
Total liabilities and stockholders’ equity	$4,623,671	$4,490,984

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

3

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$1,909,624	$1,911,582	$3,682,215	$3,687,543
Cost of goods sold (excluding depreciation and amortization)	1,543,510	1,532,113	2,966,083	2,952,906
Selling, general and administrative expenses	267,288	274,523	534,252	543,809
Depreciation and amortization	15,721	16,959	31,686	33,332
Income from operations	83,105	87,987	150,194	157,496
Interest expense, net	16,816	19,452	33,537	38,281
Income before income taxes	66,289	68,535	116,657	119,215
Provision for income taxes	16,754	18,683	29,323	34,828
Net income	49,535	49,852	87,334	84,387
Less: Net income (loss) attributable to noncontrolling interests	25	54	96	(1,465)
Net income attributable to WESCO International, Inc.	$49,510	$49,798	$87,238	$85,852
Other comprehensive income (loss):				
Foreign currency translation adjustments	33,381	(1,765)	44,949	80,505
Post retirement benefit plan adjustment	—	—	252	(16)
Comprehensive income attributable to WESCO International, Inc.	$82,891	$48,033	$132,439	$166,341
Earnings per share attributable to WESCO International, Inc.				
Basic	$1.03	$1.18	$1.80	$2.03
Diluted	$1.02	$1.02	$1.78	$1.79

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

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30,	
	2017	2016
Operating activities:		
Net income	$87,334	$84,387
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,686	33,332
Deferred income taxes	6,404	13,425
Other operating activities, net	8,306	10,393
Changes in assets and liabilities:		
Trade accounts receivable, net	(95,978)	(17,250)
Other accounts receivable	16,425	29,442
Inventories	(36,877)	(4,377)
Prepaid expenses and other assets	(6,360)	(12,775)
Accounts payable	76,836	(18,782)
Accrued payroll and benefit costs	(10,786)	(2,559)
Other current and noncurrent liabilities	(10,221)	23,374
Net cash provided by operating activities	66,769	138,610
Investing activities:		
Acquisition payments, net of cash acquired	—	(50,946)
Capital expenditures	(9,795)	(7,086)
Other investing activities	3,467	(8,103)
Net cash used in investing activities	(6,328)	(66,135)
Financing activities:		
Proceeds from issuance of short-term debt	69,257	63,745
Repayments of short-term debt	(68,517)	(62,937)
Proceeds from issuance of long-term debt	662,078	1,026,392
Repayments of long-term debt	(692,078)	(1,102,792)
Repurchases of common stock (Note 6)	(56,665)	(740)
Increase in bank overdrafts	155	6,474
Other financing activities, net	(768)	(6,322)
Net cash used in financing activities	(86,538)	(76,180)
Effect of exchange rate changes on cash and cash equivalents	3,765	3,716
Net change in cash and cash equivalents	(22,332)	11
Cash and cash equivalents at the beginning of period	110,131	160,279
Cash and cash equivalents at the end of period	$87,799	$160,290

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

5

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

1. ORGANIZATION

WESCO International, Inc. ("WESCO International") and its subsidiaries (collectively, “WESCO” or the "Company"), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical, industrial and communications maintenance, repair and operating (MRO) and original equipment manufacturer (OEM) products, construction materials, and advanced supply chain management and logistics services used primarily in the industrial, construction, utility and commercial, institutional and government markets. WESCO serves approximately 75,000 active customers globally, through approximately 500 full service branches and nine distribution centers located primarily in the United States, Canada and Mexico, with operations in 14 additional countries.

2. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of WESCO have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the “SEC”). The unaudited condensed consolidated financial information should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in WESCO’s 2016 Annual Report on Form 10-K as filed with the SEC on February 22, 2017. The Condensed Consolidated Balance Sheet at December 31, 2016 was derived from the audited Consolidated Financial Statements as of that date, but does not include all of the disclosures required by accounting principles generally accepted in the United States of America.

The unaudited Condensed Consolidated Balance Sheet as of June 30, 2017, the unaudited Condensed Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2017 and 2016, respectively, and the unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, respectively, in the opinion of management, have been prepared on the same basis as the audited Consolidated Financial Statements and include all adjustments necessary for the fair statement of the results of the interim periods presented herein. All adjustments reflected in the unaudited condensed consolidated financial information are of a normal recurring nature unless indicated. The results for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU affect all entities that issue share-based payment awards to their employees. The Company adopted this ASU in the first quarter of 2017. The amendment related to the recognition of excess tax benefits and deficiencies was applied prospectively and, as disclosed in Note 9, lowered the Company's effective tax rate for the six months ended June 30, 2017. The amendment related to the presentation of excess tax benefits on the statement of cash flows was also applied prospectively, and did not have a material impact on WESCO's cash flows. The other amendments, which were adopted by the Company according to the respective transition requirements, had no impact on the consolidated financial statements and notes thereto.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The purpose of ASU 2016-16 is to simplify the income tax accounting of an intra-entity transfer of an asset other than inventory and to record its effect when the transfer occurs. The Company early adopted this ASU on a modified retrospective basis in the first quarter of 2017. The adoption of this ASU did not have a material impact on WESCO's financial position and it had no impact on its results of operations or cash flows.

Recently Issued Accounting Pronouncements

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of Effective Date. The Company previously reported that in May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides a framework for addressing revenue recognition issues and replaces almost all existing revenue recognition guidance in current U.S. generally accepted accounting principles. The core principle of ASU 2014-09 is for companies to recognize revenue for the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. ASU 2014-09 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. The amendments in ASU 2015-14 defer the effective date of the new revenue recognition guidance to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. During 2016, the FASB issued four ASUs that address implementation issues and correct or improve certain aspects of the new revenue recognition guidance, including ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU 2016-10, Identifying Performance Obligations and Licensing, ASU 2016-12, Narrow-Scope Improvements and Practical Expedients and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. These ASUs do not change the core principles in the revenue recognition standard outlined above. The Company has developed a multiphase plan and established a cross-functional team to evaluate and implement the new standard. Management is in the process of completing the diagnostic phase. In this phase, management is reviewing various customer contracts and comparing current accounting and disclosure policies to the requirements of the new standard. Management expects to adopt the new standard using the modified retrospective approach in the first quarter of 2018. The method of adoption is subject to change as management continues to evaluate the impact that this pronouncement may have on WESCO's consolidated financial statements and notes thereto.

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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduces new guidance for the accounting for credit losses on certain financial instruments. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years and early adoption is permitted. Management is currently evaluating the impact of this accounting standard on WESCO's consolidated financial statements and notes thereto.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This ASU provides guidance on eight specific cash flow issues where there is diversity in practice. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Management is currently evaluating the impact of this accounting standard on WESCO's consolidated financial statements and notes thereto.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. Under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this ASU on a prospective basis. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management has not yet evaluated the impact of this accounting standard on WESCO's consolidated financial statements and notes thereto.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. Presently, net benefit cost is reported as an employee cost within operating income (or capitalized into assets when appropriate). This amendment requires the bifurcation of net benefit cost. The service component will be presented with other employee compensation costs in operating income (or capitalized in assets). The other components will be reported separately outside of operations, and will not be eligible for capitalization. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Management has not yet evaluated the impact of this accounting standard on WESCO's consolidated financial statements and notes thereto.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective prospectively for all companies for annual periods beginning on or after December 15, 2017. Early adoption is permitted. Management has not yet evaluated the impact of this accounting standard on WESCO's consolidated financial statements and notes thereto.

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

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities, and outstanding indebtedness. The reported carrying amounts of WESCO's financial instruments approximate their fair values. The Company uses a market approach to fair value all of its debt instruments, utilizing quoted prices in active markets, interest rates and other relevant information generated by market transactions involving similar instruments. Therefore, all of the Company's debt instruments are classified as Level 2 within the valuation hierarchy.

3. ACQUISITIONS

On March 14, 2016, WESCO Distribution, Inc. ("WESCO Distribution") completed the acquisition of Atlanta Electrical Distributors, LLC ("AED"), an Atlanta-based electrical distributor focused on the construction and MRO markets from five locations in Georgia with approximately $85 million in annual sales. WESCO Distribution funded the purchase price paid at closing with borrowings under its revolving credit facility. The purchase price was allocated to the respective assets and liabilities based upon their estimated fair values as of the acquisition date. In addition to the cash paid at closing, the purchase price included a contingent payment that may be earned upon the achievement of certain financial performance targets over three consecutive one year periods. The fair value of the contingent consideration was determined using a probability-weighted outcome analysis and Level 3 inputs such as internal forecasts. This amount was accrued at the maximum potential payout under the terms of the purchase agreement. The fair value of intangibles was estimated by management and the allocation resulted in intangible assets of $21.8 million and goodwill of $30.0 million. The intangible assets include customer relationships of $15.8 million amortized over 13 and 14 years, a trademark of $6.0 million amortized over 13 years, and non-compete agreements of less than $0.1 million amortized over 5 years. No residual value was estimated for the intangible assets being amortized. The majority of goodwill is deductible for tax purposes.

4. GOODWILL

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

	Six Months Ended	
	June 30, 2017	June 30, 2016
	(In thousands)	
Beginning balance January 1	$1,720,714	$1,681,662
Foreign currency exchange rate changes	20,826	40,062
Adjustments to goodwill for acquisitions (1)	—	18,432
Ending balance June 30	$1,741,540	$1,740,156

(1) For the six months ended June 30, 2016, adjustments relate to goodwill resulting from the preliminary allocation of the AED purchase price to the respective assets acquired and liabilities assumed, partially offset by a correction to goodwill for deferred income taxes related to prior acquisitions.

5. STOCK-BASED COMPENSATION

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

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

During the three and six months ended June 30, 2017 and 2016, WESCO granted the following stock-settled stock appreciation rights, restricted stock units and performance-based awards at the following weighted-average fair values:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Stock-settled stock appreciation rights granted	—	4,744	443,731	708,254
Weighted-average fair value	$ —	$ 17.22	$ 20.65	$ 12.90
Restricted stock units granted	—	137	98,680	143,305
Weighted-average fair value	$ —	$ 54.67	$ 71.65	$ 42.45
Performance-based awards granted	—	—	39,978	91,768
Weighted-average fair value	$ —	$ —	$ 76.63	$ 47.00

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

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Risk free interest rate	— %	1.2 %	1.9 %	1.2 %
Expected life (in years)	0	5	5	5
Expected volatility	— %	32 %	29 %	32 %

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

The following table sets forth a summary of stock-settled stock appreciation rights and related information for the six months ended June 30, 2017:

	Awards	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2016	2,439,487	$ 52.62		
Granted	443,731	71.65		
Exercised	(468,600)	42.48		
Forfeited	(87,445)	68.93		
Outstanding at June 30, 2017	2,327,173	57.68	6.6	$ 17,651
Exercisable at June 30, 2017	1,398,502	$ 56.84	5.0	$ 11,783

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

The following table sets forth a summary of time-based restricted stock units and related information for the six months ended June 30, 2017:

	Awards	Weighted-Average Fair Value
Unvested at December 31, 2016	257,096	$ 57.47
Granted	98,680	71.65
Vested	(43,169)	85.17
Forfeited	(12,449)	53.91
Unvested at June 30, 2017	300,158	$ 58.29

Performance shares are awards for which the vesting will occur based on market or performance conditions. The following table sets forth a summary of performance-based awards for the six months ended June 30, 2017:

	Awards	Weighted-Average Fair Value
Unvested at December 31, 2016	149,320	$ 60.36
Granted	39,978	76.63
Vested	—	—
Forfeited	(36,162)	79.64
Unvested at June 30, 2017	153,136	$ 60.05

The fair value of the performance shares granted during the six months ended June 30, 2017 and 2016 was estimated using the following weighted-average assumptions:

	Six Months Ended	
	June 30, 2017	June 30, 2016
Grant date share price	$71.65	$42.44
WESCO expected volatility	29 %	26 %
Peer group median volatility	24 %	24 %
Risk-free interest rate	1.5 %	0.9 %
Correlation of peer company returns	114 %	122 %

The unvested performance-based awards in the table above include 76,568 shares in which vesting of the ultimate number of shares is dependent upon WESCO's total stockholder return in relation to the total stockholder return of a select group of peer companies over a three-year period. These awards are accounted for as awards with market conditions; compensation cost is recognized over the service period, regardless of whether the market conditions are achieved and the awards ultimately vest.

Vesting of the remaining 76,568 shares of performance-based awards in the table above is dependent upon the three-year average growth rate of WESCO's net income. These awards are accounted for as awards with performance conditions; compensation cost is recognized over the performance period based upon WESCO's determination of whether it is probable that the performance targets will be achieved.

WESCO recognized $4.1 million and $3.4 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended June 30, 2017 and 2016, respectively. WESCO recognized $7.8 million and $7.0 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the six months ended June 30, 2017 and 2016, respectively. As of

June 30, 2017, there was $26.4 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately $7.5 million is expected to be recognized over the remainder of 2017, $11.5 million in 2018, $6.7 million in 2019 and $0.7 million in 2020.

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

6. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to WESCO International by the weighted-average number of common shares outstanding during the periods. Diluted earnings per share is computed by dividing net income attributable to WESCO International by the weighted-average common shares and common share equivalents outstanding during the periods. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method, which includes consideration of equity awards and contingently convertible debt.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2017	2016	2017	2016
Net income attributable to WESCO International, Inc.	$49,510	$49,798	$87,238	$85,852
Weighted-average common shares outstanding used in computing basic earnings per share	48,294	42,238	48,499	42,224
Common shares issuable upon exercise of dilutive equity awards	482	569	582	494
Common shares issuable from contingently convertible debentures (see below for basis of calculation)	—	5,820	—	5,120
Weighted-average common shares outstanding and common share equivalents used in computing diluted earnings per share	48,776	48,627	49,081	47,838
Earnings per share attributable to WESCO International, Inc.				
Basic	$1.03	$1.18	$1.80	$2.03
Diluted	$1.02	$1.02	$1.78	$1.79

For the three and six months ended June 30, 2017, the computation of diluted earnings per share attributable to WESCO International, Inc. excluded stock-based awards of approximately 1.3 million and 1.2 million, respectively. For the three and six months ended June 30, 2016, the computation of diluted earnings per share attributable to WESCO International, Inc. excluded stock-based awards of approximately 1.5 million and 2.1 million, respectively. These amounts were excluded because their effect would have been antidilutive.

Because of WESCO’s previous obligation to settle the par value of the 6.0% Convertible Senior Debentures due 2029 (the "2029 Debentures") in cash upon conversion, WESCO was required to include shares underlying the 2029 Debentures in its diluted weighted-average shares outstanding when the average stock price per share for the period exceeded the conversion price of the debentures. Only the number of shares that would have been issuable under the treasury stock method of accounting for share dilution were included, which was based upon the amount by which the average stock price exceeded the conversion price. The conversion price of the 2029 Debentures was $28.87 and the maximum amount of share dilution was limited to 11,951,932 shares. Since the 2029 Debentures were redeemed on September 15, 2016, there was no dilution from contingently convertible debentures for the three and six months ended June 30, 2017. For the three and six months ended June 30, 2016, the effect of the 2029 Debentures on diluted earnings per share attributable to WESCO International, Inc. was a decrease of $0.14 and $0.22, respectively.

In December 2014, the Company's Board of Directors authorized the repurchase of up to $300 million of the Company's common stock through December 31, 2017. As of December 31, 2016, WESCO had repurchased 2,468,576 shares of the Company's common stock for $150.0 million under this repurchase authorization. On May 2, 2017, the Company entered into an accelerated stock repurchase agreement (the "ASR Transaction") with a financial institution to repurchase additional shares of its common stock. In exchange for an up-front cash payment of $50.0 million, the Company received 804,291 shares. The total number of shares ultimately delivered under the ASR

Transaction was determined by the average of the volume-weighted average prices of the Company's common stock for each exchange business day during the settlement valuation period. WESCO funded the repurchase with available cash and borrowings under the Company's accounts receivable securitization facility. For purposes of computing earnings per share, shares received under the ASR Transaction were reflected as a reduction to common shares outstanding on the respective delivery dates.

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

7. EMPLOYEE BENEFIT PLANS

A majority of WESCO’s employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO’s formation. WESCO also offers a deferred compensation plan for select individuals. For U.S. participants, WESCO matches contributions made by employees at an amount equal to 50% of participants' total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO makes contributions in amounts ranging from 3% to 5%&#32