WESCO INTERNATIONAL INC
Form 10-Q
November 02, 2010

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

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

For the quarterly period ended September 30, 2010

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD from __________ to __________

Commission file number 001-14989

WESCO International, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**25-1723342**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
225 West Station Square Drive **Suite 700** **Pittsburgh, Pennsylvania 15219**	**(412) 454-2200**
(Address of principal executive offices)	(Registrant s telephone number, including area code)

N/A

(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 such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

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

As of October 29, 2010, WESCO International, Inc. had 42,483,028 shares of common stock outstanding.

WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

Amounts in thousands, except share data	September 30, 2010	December 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	$ 103,120	$ 112,329
Trade accounts receivable, net of allowance for doubtful accounts of $18,589 and $20,060 in 2010 and 2009, respectively	796,370	635,754
Other accounts receivable	23,175	31,808
Inventories, net	551,982	507,215
Current deferred income taxes	1,653	1,686
Income taxes receivable	23,006	29,135
Prepaid expenses and other current assets	18,506	13,077
Total current assets	1,517,812	1,331,004
Property, buildings and equipment, net	114,364	116,309
Intangible assets, net	75,790	81,308
Goodwill	876,533	863,410
Investment in subsidiary		43,957
Deferred income taxes	37,655	33,518
Other assets	13,105	24,687
Total assets	$ 2,635,259	$ 2,494,193
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 574,918	$ 453,154
Accrued payroll and benefit costs	51,683	30,949
Current portion of long-term debt	96,673	93,977
Bank overdrafts	25,645	32,191
Current deferred income taxes	7,959	7,301
Other current liabilities	77,966	63,262
Total current liabilities	834,844	680,834
Long-term debt, net of discount of $178,959 and $182,689 in 2010 and 2009, respectively	483,646	597,869
Deferred income taxes	190,779	191,068
Other noncurrent liabilities	30,693	28,133
Total liabilities	$ 1,539,962	$ 1,497,904

Commitments and contingencies (Note 9)		
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, 56,060,026 and 55,967,824 shares issued and 42,502,097 and 42,416,796 shares outstanding in 2010 and 2009, respectively	561	560
Class B nonvoting convertible common stock, $.01 par value; 20,000,000 shares authorized, 4,339,431 issued and no shares outstanding in 2010 and 2009, respectively	43	43
Additional capital	1,005,730	992,855
Retained earnings	662,853	582,199
Treasury stock, at cost; 17,897,360 and 17,890,459 shares in 2010 and 2009, respectively	(590,602)	(590,353)
Accumulated other comprehensive income	16,712	10,985
Total stockholders equity	1,095,297	996,289
Total liabilities and stockholders equity	$ 2,635,259	$ 2,494,193

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

Amounts in thousands, except per share data	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net sales	$ 1,324,555	$ 1,152,427	$ 3,732,275	$ 3,491,232
Cost of goods sold (excluding depreciation and amortization below)	1,066,769	931,536	3,004,121	2,808,296
Selling, general and administrative expenses	190,577	168,309	559,592	525,658
Depreciation and amortization	5,963	6,410	17,684	19,926
Income from operations	61,246	46,172	150,878	137,352
Interest expense, net	13,748	13,599	41,678	39,949
Gain on debt exchange		(5,961)		(5,961)
Other income		(1,391)	(4,284)	(4,118)
Income before income taxes	47,498	39,925	113,484	107,482
Provision for income taxes	13,837	6,306	32,830	24,147
Net income	$ 33,661	$ 33,619	$ 80,654	$ 83,335
Earnings per share :				
Basic	$ 0.79	$ 0.80	$ 1.90	$ 1.97
Diluted	$ 0.74	$ 0.79	$ 1.79	$ 1.95

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

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WESCO INTERNATIONAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

Amounts in thousands	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating Activities:		
Net income	$ 80,654	$ 83,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,684	19,926
Amortization of debt issuance costs	1,982	2,862
Amortization of debt discount	3,730	10,556
Deferred income taxes	(4,551)	5,413
Stock-based compensation expense	11,452	9,787
Gain on debt exchange		(5,961)
Gain on sale of property, buildings and equipment	(263)	(308)
Asset impairment charge	3,793	
Equity income, net of distributions in 2010 and 2009 of $1,864 and $4,786, respectively	(2,421)	668
Excess tax benefit from stock-based compensation	(713)	(197)
Interest related to uncertain tax positions	551	863
Changes in assets and liabilities		
Trade and other receivables, net	(149,569)	148,858
Inventories, net	(40,859)	117,086
Prepaid expenses and other current assets	3,352	(8,577)
Accounts payable	118,350	(69,698)
Accrued payroll and benefit costs	20,624	(21,413)
Other current and noncurrent liabilities	11,701	(2,346)
Net cash provided by operating activities	75,497	290,854
Investing Activities:		
Capital expenditures	(10,123)	(10,505)
Acquisition payments	(14,344)	(214)
Proceeds from sale of subsidiary	40,000	
Equity distribution	4,054	1,328
Collection of note receivable	15,000	
Proceeds from sale of assets	925	111
Net cash provided (used) by investing activities	35,512	(9,280)
Financing Activities:		
Proceeds from issuance of long-term debt	716,474	305,700
Repayments of long-term debt	(830,798)	(545,458)
Debt issuance costs	(2,049)	(13,261)
Proceeds from the exercise of stock options	742	312
Excess tax benefit from stock-based compensation	713	197

Repurchase of common stock	(249)	(30)
Decrease in bank overdrafts	(6,545)	(11,122)
Payments on capital lease obligations	(1,234)	(1,500)
Net cash used by financing activities	(122,946)	(265,162)
Effect of exchange rate changes on cash and cash equivalents	2,728	8,595
Net change in cash and cash equivalents	(9,209)	25,007
Cash and cash equivalents at the beginning of period	112,329	86,338
Cash and cash equivalents at the end of period	$ 103,120	$ 111,345
Supplemental disclosures:		
Non-cash investing and financing activities:		
Property, buildings and equipment acquired through capital leases	$ 285	$ 805

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

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

1. ORGANIZATION

WESCO International, Inc. and its subsidiaries (collectively, WESCO), headquartered in Pittsburgh, Pennsylvania, is a full-line distributor of electrical construction products and electrical and industrial maintenance, repair and operating (MRO) supplies and is a provider of supply chain services used primarily in the industrial, construction, utility and commercial, institutional and government markets. We serve over 100,000 customers globally, through approximately 380 full service branches and seven distribution centers located primarily in the United States, Canada, and Mexico, with additional locations in the United Kingdom, Singapore, China, Australia, Africa and the United Arab Emirates.

2. ACCOUNTING POLICIES

Basis of Presentation

The 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 statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in WESCO s 2009 Annual Report on Form 10-K filed with the SEC. The December 31, 2009 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States.

The unaudited condensed consolidated balance sheet as of September 30, 2010, the unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2010 and 2009, respectively, and the unaudited condensed consolidated statements of cash flows for the nine months ended September 30, 2010 and 2009, 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. All adjustments reflected in the unaudited condensed consolidated financial statements are of a normal recurring nature unless indicated. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

Recent Accounting Pronouncements

Pronouncements issued by the Financial Accounting Standards Board (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.

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3. STOCK-BASED COMPENSATION

WESCO s stock-based employee compensation plans are comprised of stock options, stock-settled stock appreciation rights and restricted stock units. 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 options and stock-settled appreciation rights is determined using the Black-Scholes valuation model. The fair value of restricted stock units is determined by the grant-date closing price of WESCO s common stock. The forfeiture assumption is based on WESCO s historical employee behavior that is reviewed on an annual basis. No dividends are assumed.

During the three and nine month periods ended September 30, 2010 and 2009, WESCO granted the following stock-settled stock appreciation rights and restricted stock units at the following weighted average assumptions:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
Stock-settled appreciations rights granted	684,949	801,531	708,949	803,231
Restricted stock units	153,318	245,997	153,318	245,997
Risk free interest rate	1.8%	2.3%	1.8%	2.3%
Expected life	5.0 years	4.5 years	5.0 years	4.5 years
Expected volatility	49%	51%	49%	51%

For the three and nine months ended September 30, 2010, the weighted average fair value per stock-settled appreciation right granted was $14.69 and $14.71, respectively. For the three and nine months ended September 30, 2009, the weighted average fair value per stock-settled appreciation right granted was $11.15 and $13.65, respectively. For the three and nine months ended September 30, 2010 and 2009, the weighted average fair value per restricted stock unit granted was $33.05 and $25.37, respectively.

WESCO recognized $4.3 million and $3.5 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the three months ended September 30, 2010 and 2009, respectively. WESCO recognized $11.5 million and $9.8 million of non-cash stock-based compensation expense, which is included in selling, general and administrative expenses, for the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, there was $23.4 million of total unrecognized compensation cost related to non-vested stock-based compensation arrangements for all awards previously made, of which approximately $4.3 million is expected to be recognized over the remainder of 2010, $11.4 million in 2011, $5.8 million in 2012 and $1.9 million in 2013.

During the nine months ended September 30, 2010 and 2009, the total intrinsic value of awards exercised was $2.2 million and $0.6 million, respectively, and the total amount of cash received from the exercise of options was $0.7 million and $0.3 million, respectively. The tax impact associated with the exercise of awards for the nine months ended September 30, 2010 and 2009 was a benefit of $0.6 million and a detriment of $0.1 million, respectively, and was recorded to additional capital.

The following table sets forth a summary of stock options and stock-settled stock appreciation rights and related information for the nine months ended September 30, 2010:

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	Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at December 31, 2009	4,226,153	$ 35.30		
Granted	708,949	33.19		
Exercised	(115,043)	16.01		
Forfeited	(90,417)	41.59		
Outstanding at September 30, 2010	4,729,642	35.33	6.7	$ 27,273
Exercisable at September 30, 2010	3,221,554	36.99	5.6	$ 21,393

The following table sets forth a summary of restricted stock units and related information for the nine months ended September 30, 2010:

	Awards	Weighted Average Fair Value
Unvested at December 31, 2009	243,942	$ 25.37
Granted	153,318	33.05
Vested	(675)	25.37
Forfeited	(3,085)	25.37
Unvested at September 30, 2010	393,500	$ 28.36

4. EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average common shares outstanding during the periods. Diluted earnings per share are computed by dividing net income by the weighted average common shares and common share equivalents outstanding during the periods. The dilutive effect of common share equivalents is considered in the diluted earnings per share computation using the treasury stock method, which includes consideration of stock-based compensation and convertible debt.

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

Amounts in thousands, except share and per share data	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Net income reported	$ 33,661	$ 33,619
Weighted average common shares outstanding used in computing basic earnings per share	42,491,186	42,278,729
Common shares issuable upon exercise of dilutive stock options	795,649	479,142
Common shares issuable from contingently convertible debentures (see note below for basis of calculation)	2,237,606	
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	45,524,441	42,757,871
Earnings per share:		
Basic	$ 0.79	$ 0.80
Diluted	$ 0.74	$ 0.79

Amounts in thousands, except share and per share data	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net income reported	$ 80,654	$ 83,335
Weighted average common shares outstanding used in computing basic earnings per share	42,470,820	42,264,440
Common shares issuable upon exercise of dilutive stock options	728,706	381,175
Common shares issuable from contingently convertible debentures (see note below for basis of calculation)	1,981,055	—
Weighted average common shares outstanding and common share equivalents used in computing diluted earnings per share	45,180,581	42,645,615
Earnings per share:		
Basic	$ 1.90	$ 1.97
Diluted	$ 1.79	$ 1.95

For the three months ended September 30, 2010 and 2009, the computation of diluted earnings per share excluded 2.5 million and 3.3 million, respectively, of stock-settled stock appreciation rights at weighted average exercise prices of $47 per share and $42 per share, respectively. For the nine months ended September 30, 2010 and 2009, the computation of diluted earnings per share excluded 2.5 million and 3.7 million, respectively, of stock-settled stock appreciation rights at weighted average exercise prices of $47 per share and $40 per share, respectively. These amounts were excluded because their effect would have been antidilutive.

Because of WESCO s obligation to settle the par value of the 2.625% Convertible Senior Debentures due 2025 (the 2025 Debentures), the 1.75% Convertible Senior Debentures due 2026 (the 2026 Debentures) and the 6.0% Convertible Senior Debentures due 2029 (the 2029 Debentures and together with the 2025 Debentures and 2026 Debentures, the Debentures) in cash, WESCO is not required to include any shares underlying the Debentures in its diluted weighted average shares outstanding until the average stock price per share for the period exceeds the conversion price of the respective Debentures. At such time, only the number of shares that would be issuable (under the treasury stock method of accounting for share dilution) would be included, which is based upon the amount by which the average stock price exceeds the conversion price. The conversion prices of the 2029 Debentures, 2026 Debentures and 2025 Debentures are $28.87, $88.15 and $41.86, respectively. Share dilution is limited to a maximum of 11,951,939 shares for the 2029 Debentures, 2,507 shares for the 2026 Debentures and 2,205,434 shares for the 2025 Debentures. Since the average stock prices for the three and nine month periods ended September 30, 2010 were $35.51 per share and $34.60 per share, respectively, 2,237,606 shares and 1,981,055 shares, respectively, underlying the 2029 Debentures were included in the diluted share count. The effect of the 2029 Debentures on diluted earnings per share was a decrease of approximately $0.04 and $0.08, respectively. There was no impact of the Debentures on diluted earnings per share for the three and nine month periods ended September 30, 2009.

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5. REVOLVING CREDIT FACILITY

At September 30, 2010, the aggregate borrowing capacity under the revolving credit facility was $375 million. The revolving credit facility consists of two separate sub-facilities: (i) a U.S. sub-facility and (ii) a Canadian sub-facility and includes a letter of credit sub-limit of up to $55 million. The facility matures on November 1, 2013 and is collateralized by the inventory of WESCO Distribution, Inc. (WESCO Distribution) and the inventory and accounts receivable of WESCO Distribution Canada, L.P. WESCO Distribution s obligations under the revolving credit facility have been guaranteed by WESCO International, Inc. (WESCO International) and by certain of WESCO Distribution s subsidiaries.

On February 19, 2010, WESCO Distribution, along with certain of its subsidiaries, entered into a Limited Consent and Amendment No. 4 (the Amendment) to its Third Amended and Restated Revolving Credit Agreement, dated November 1, 2006 (the Agreement). The Amendment permits WESCO to complete certain legal entity restructuring actions, issue additional surety bonds and invest additional resources in foreign subsidiaries. In addition, the Amendment enhances WESCO s hedging capacities.

Pursuant to the terms of the Amendment, WESCO agreed to modify the Applicable Margins (as defined in the Agreement) paid to the lenders on borrowings and letters of credit. Availability under the facility is limited to the amount of eligible U.S. and Canadian inventory and Canadian receivables applied against certain advance rates. Depending upon the amount of excess availability under the facility, interest will be calculated at LIBOR plus a margin that ranges between 2.25% and 2.875% or at the Index Rate (prime rate published by the Wall Street Journal) plus a margin that ranges between 1.00% and 1.625%. This change represented a 1.125% to 1.25% adjustment in borrowing margin over the previous rates. The fee for unused capacity associated with the facility was not changed and will range between 0.25% and 0.375%. At September 30, 2010, the interest rate on borrowings under this facility was approximately 2.7%.

As long as the average daily excess availability for both the preceding and projected succeeding 90-day period is greater than $50 million, WESCO is permitted to make acquisitions and repurchase outstanding public stock and bonds. The above permitted transactions also are allowed if such excess availability is between $25 million and $50 million and WESCO s fixed charge coverage ratio, as defined by Agreement, is at least 1.25 to 1.0 after taking into consideration the permitted transaction. Additionally, if excess availability under the revolving credit facility is less than $60 million, then WESCO must maintain a fixed charge coverage ratio of 1.1 to 1.0. At September 30, 2010 and December 31, 2009, WESCO had $18.0 million and $196.5 million, respectively, outstanding under the facility.

6. ACCOUNTS RECEIVABLE SECURITIZATION FACILITY

On September 7, 2010, WESCO Distribution, Inc. (WESCO Distribution) entered into an amendment of its existing accounts receivable securitization facility (the Receivables Facility), pursuant to the terms and conditions of the Second Amendment (the Amendment) to Third Amended and Restated Receivables Purchase Agreement, dated as of April 13, 2009 (the Agreement), by and among WESCO Receivables Corp., WESCO Distribution, the Purchasers and Purchaser Agents party thereto and PNC Bank, National Association, as Administrator. The Amendment lowers the program fee from 3.0% to 1.75%, the commitment fee from 1.0% to 0.75%, and clarifies terms included in the definition of fixed charges. The Amendment also extends the term of the Receivables Facility to September 6, 2013. Substantially all other terms and conditions of the Agreement remain unchanged.

Under the Receivables Facility, WESCO sells, on a continuous basis, an undivided interest in all domestic accounts receivable to WESCO Receivables Corp., a wholly owned special purpose entity (the SPE). The SPE sells, without recourse, a senior undivided interest in the receivables to third-party conduits and financial institutions for cash while maintaining a subordinated undivided interest in the receivables, in the form of overcollateralization. WESCO has agreed to continue servicing the sold receivables for the third-party conduits and financial institutions at market rates; accordingly, no servicing asset or liability has been recorded.

The consolidated balance sheets as of September 31, 2010 and December 31, 2009 reflect $110.0 million and $45.0 million, respectively, of account receivables balances legally sold to third parties, as well as borrowings for equal amounts. At September 31, 2010, the interest rate on borrowings under this facility was approximately 2.6%.

7. EQUITY INVESTMENT

During the first quarter of 2008, WESCO and Deutsch Engineered Connecting Devices, Inc. (Deutsch) completed a transaction with respect to WESCO s LADD operations, which resulted in a joint venture in which Deutsch owned a 60% interest and WESCO owned a 40% interest. WESCO accounted for its investment in the joint venture using the equity method of accounting. Accordingly, earnings from the joint venture were recorded as other income in the consolidated statement of income. Deutsch was entitled, but not obliged, to acquire the remaining 40% after January 1, 2010. Deutsch

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paid to WESCO aggregate consideration of approximately $75.0 million, consisting of $60.0 million in cash plus a $15.0 million promissory note for its 60% interest in the joint venture.

On January 15, 2010, WESCO received $1.8 million in accrued interest related to the promissory note for the period from January 2, 2008 to January 2, 2010. In addition, Deutsch and WESCO entered into an amended promissory note agreement. The amendment extended the maturity date for the payment of principal and interest to the earlier of (a) the closing date of Deutsch s option to acquire the remaining 40% joint venture interest or (b) the maturity date of Deutsch s credit facility or mezzanine financing facility. Interest accrued at a rate of 8.5% compounded annually. Management believed this rate was commensurate with a market rate of interest; therefore, no reserve or allowance was recorded against the promissory note.

On April 30, 2010, Deutsch notified WESCO it would exercise its option to purchase the remaining 40% of the LADD joint venture. The option price for Deutsch to acquire the remaining 40% of the joint venture was determined based upon a multiple of trailing earnings, with a minimum purchase price of $40.0 million and maximum purchase price of $50.0 million. The investment in the LADD joint venture at March 31, 2010 was $43.4 million, and the estimated option exercise price was $40.0 million. As a result, WESCO recorded a pre-tax impairment loss of $3.4 million to selling, general and administrative expenses during the first quarter of 2010. On June 7, 2010, WESCO completed the sale of its 40% interest in the LADD joint venture and recorded an additional impairment charge of $0.4 million to selling, general and administrative expenses. WESCO received $40.0 million for its 40% interest plus $15.0 million for the outstanding promissory note and $0.5 million for accrued interest.

8. EMPLOYEE BENEFIT PLANS

A majority of WESCO s employees are covered by defined contribution retirement savings plans for their services rendered subsequent to WESCO s formation. WESCO also offers a deferred compensation plan for select individuals. For U.S. participants, WESCO will make contributions in an amount equal to 50% of the participant s total monthly contributions up to a maximum of 6% of eligible compensation. For Canadian participants, WESCO will make contributions in an amount ranging from 1% to 7% of the participant s eligible compensation based on years of continuous service. In addition, employer contributions may be made at the discretion of the Board of Directors. For the nine months ended September 30, 2010 and 2009, WESCO incurred charges of $17.9 million and $7.4 million, respectively, for all such plans. Effective January 1, 2010, WESCO reinstated all discretionary contributions that had been suspended since August 1, 2009 with the exception of a certain group of employees comprised of corporate officers and others. Reinstatement for these employees will be contingent upon WESCO reaching certain financial objectives. Contributions are made in cash to all employee retirement savings plan accounts, except for the deferred compensation plan. Employees then have the option to transfer balances allocated to their accounts into any of the available investment options, including WESCO common stock.

9. COMMITMENTS AND CONTINGENCIES

WESCO is a co-defendant in a lawsuit filed in a state court in Indiana in which a customer alleges that WESCO sold defective products manufactured or remanufactured by others and is seeking monetary damages in the amount of $52 million. WESCO has denied any liability, believes that it has meritorious defenses and intends to vigorously defend itself against these allegations. Accordingly, no liability is recorded for this matter as of September 30, 2010.

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10. COMPREHENSIVE INCOME

The following tables set forth comprehensive income and its components:

	Three Months Ended September 30,	
Amounts in thousands	**2010**	**2009**
Net Income	$ 33,661	$ 33,619
Foreign currency translation adjustment	5,901	11,395
Comprehensive income	$ 39,562	$ 45,014

No. of

Warrants

WARRANTS (0.1%)

Construction & Engineering (0.1%)

IJM Corp. Bhd

expiring 8/20/10 (Cost $2)

(a)

148,600

28

1

			Face Amount (000)	
CORPORATE BOND (0.0%)				
Media (0.0%)				
Media Prima Bhd 2.00%, 7/18/08 (Cost $26)	(a)	MYR	100	24
SHORT-TERM INVESTMENT (1.0%)				
Repurchase Agreement (1.0%)				
J.P. Morgan Securities, Inc., 4.73%, dated 3/31/06, due 4/3/06 repurchase price $596 (Cost $596)	(c)	$	596	596
TOTAL INVESTMENTS+(95.1%) (Cost $43,809)				55,334
OTHER ASSETS IN EXCESS OF LIABILITIES (4.9%)				2,863
NET ASSETS (100%)			$	58,197

(a) Non-income producing security.
(b) Security was valued at fair value At March 31, 2006, the Fund held $62,000 of fair valued securities, representing 0.1% of net assets.
(c) Represents the Fund s undivided interest in a joint repurchase agreement which has a total value of $935,502,000. The repurchase agreement was fully collateralized by U.S. government agency securities at the date of this Portfolio of Investments as follows: Federal Home Loan Mortgage Corp., 3.23% to 6.08%, due 4/1/19 to 2/1/37; Federal National Mortgage Association, Conventional Pools, 3.60% to 6.39%, due 5/1/28 to 4/1/44, which had a total value of $954,214,908. The investment in the repurchase agreement is through participation in a joint account with affiliated parties pursuant to exemptive relief received by the Fund from the SEC.
(d) Security has been deemed illiquid At March 31, 2006.
\+ At March 31, 2006, the U.S. Federal income tax cost basis of investments was approximately $43,809,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was $11,525,000 of which $15,916,000 related to appreciated securities and $4,391,000 related to depreciated securities.
MYR Malaysian Ringgit

Item 2. Controls and Procedures.

(a) The Fund s principal executive officer and principal financial officer have concluded that the Fund s disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Fund in this Form N-Q was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, based upon such officers evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the Fund s internal control over financial reporting that occurred during the registrant s fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Fund s internal control over financial reporting.

Item 3. Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant)	The Malaysia Fund, Inc.
By: /s/ Ronald E. Robison	
Name:	Ronald E. Robison
Title:	Principal Executive Officer
Date:	May 18, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Ronald E. Robison	
Name:	Ronald E. Robison
Title:	Principal Executive Officer
Date:	May 18, 2006
By: /s/ James Garrett	
Name:	James Garrett
Title:	Principal Financial Officer
Date:	May 18, 2006