

INGRAM MICRO INC
Form 10-Q
August 10, 2011

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

(Mark One)

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

For the quarterly period ended July 2, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 1-12203

Ingram Micro Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

62-1644402

(I.R.S. Employer Identification No.)

1600 E. St. Andrew Place, Santa Ana, California 92705-4926

(Address, including zip code, of principal executive offices)

(714) 566-1000

(Registrant's telephone number, including area code)

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 the past 90 days.

Yes No

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 No

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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

The Registrant had 157,441,169 shares of Class A Common Stock, par value \$0.01 per share, outstanding at July 2, 2011.

**INGRAM MICRO INC.
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INGRAM MICRO INC.
CONSOLIDATED BALANCE SHEET
(In 000s, except par value)
(Unaudited)

	July 2, 2011	January 1, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,366,772	\$ 1,155,551
Trade accounts receivable (less allowances of \$71,175 and \$75,794)	3,591,589	4,138,629
Inventory	3,076,075	2,914,525
Other current assets	352,190	381,383
Total current assets	8,386,626	8,590,088
Property and equipment, net	291,670	247,395
Intangible assets, net	81,177	81,992
Other assets	159,745	164,557
Total assets	\$ 8,919,218	\$ 9,084,032
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 4,263,033	\$ 4,593,694
Accrued expenses	513,189	536,218
Short-term debt and current maturities of long-term debt	120,207	105,274
Total current liabilities	4,896,429	5,235,186
Long-term debt, less current maturities	522,414	531,127
Other liabilities	80,391	76,537
Total liabilities	5,499,234	5,842,850
Commitments and contingencies (Note 13)		
Stockholders equity:		
Preferred Stock, \$0.01 par value, 25,000 shares authorized; no shares issued and outstanding		
Class A Common Stock, \$0.01 par value, 500,000 shares authorized; 184,697 and 182,458 shares issued and 157,441 and 158,745 shares outstanding in 2011 and 2010, respectively	1,847	1,825
Class B Common Stock, \$0.01 par value, 135,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	1,292,394	1,259,406
Treasury stock, 27,256 and 23,713 shares in 2011 and 2010, respectively	(454,502)	(388,817)

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Retained earnings	2,316,719	2,200,755
Accumulated other comprehensive income	263,526	168,013
Total stockholders' equity	3,419,984	3,241,182
Total liabilities and stockholders' equity	\$ 8,919,218	\$ 9,084,032

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF INCOME
(In 000s, except per share data)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net sales	\$ 8,749,025	\$ 8,156,328	\$ 17,472,737	\$ 16,252,282
Cost of sales	8,289,793	7,718,875	16,559,433	15,373,367
Gross profit	459,232	437,453	913,304	878,915
Operating expenses:				
Selling, general and administrative	362,084	333,066	716,371	669,008
Reorganization credits		(189)	(269)	(358)
	362,084	332,877	716,102	668,650
Income from operations	97,148	104,576	197,202	210,265
Other expense (income):				
Interest income	(1,251)	(885)	(2,624)	(2,113)
Interest expense	14,318	7,319	27,513	13,469
Net foreign currency exchange (gain) loss	(2,974)	1,178	35	1,677
Other	3,233	2,241	7,051	5,277
	13,326	9,853	31,975	18,310
Income before income taxes	83,822	94,723	165,227	191,955
Provision for income taxes	24,091	26,996	49,186	53,900
Net income	\$ 59,731	\$ 67,727	\$ 116,041	\$ 138,055
Basic earnings per share	\$ 0.37	\$ 0.42	\$ 0.73	\$ 0.84
Diluted earnings per share	\$ 0.37	\$ 0.41	\$ 0.71	\$ 0.83

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In 000s)
(Unaudited)

	Twenty-six Weeks Ended	
	July 2, 2011	July 3, 2010
Cash flows from operating activities:		
Net income	\$ 116,041	\$ 138,055
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	28,167	32,034
Stock-based compensation	15,988	11,065
Excess tax benefit from stock-based compensation	(2,550)	(1,614)
Gain on sale of land and building		(2,380)
Noncash charges for interest	969	242
Deferred income taxes	5,445	7,928
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	655,289	292,803
Inventory	(81,121)	(236,933)
Other current assets	40,285	38,144
Accounts payable	(334,616)	(149,109)
Change in book overdrafts	(99,089)	(18,044)
Accrued expenses	(67,975)	(21,143)
Cash provided by operating activities	276,833	91,048
Cash flows from investing activities:		
Purchases of property and equipment	(60,921)	(34,702)
Sale of (investment in) marketable trading securities	(971)	699
Proceeds from sale of land and building		3,924
Acquisitions, net of cash acquired	(2,106)	(4,933)
Cash used by investing activities	(63,998)	(35,012)
Cash flows from financing activities:		
Proceeds from exercise of stock options	33,732	12,654
Repurchase of Class A Common Stock	(75,906)	(152,285)
Excess tax benefit from stock-based compensation	2,550	1,614
Repayment of senior unsecured term loan	(6,250)	(6,250)
Net proceeds from (repayments of) revolving credit facilities	14,657	(23,654)
Cash used by financing activities	(31,217)	(167,921)
Effect of exchange rate changes on cash and cash equivalents	29,603	(37,202)

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Increase (decrease) in cash and cash equivalents	211,221	(149,087)
Cash and cash equivalents, beginning of period	1,155,551	910,936
Cash and cash equivalents, end of period	\$ 1,366,772	\$ 761,849

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in 000s, except per share data)
(Unaudited)

Note 1 Organization and Basis of Presentation

Ingram Micro Inc. and its subsidiaries are primarily engaged in the distribution of information technology (IT) products and supply chain solutions worldwide. Ingram Micro Inc. and its subsidiaries operate in North America; Europe, Middle East and Africa (EMEA); Asia-Pacific; and Latin America.

The consolidated financial statements include the accounts of Ingram Micro Inc. and its subsidiaries. Unless the context otherwise requires, the use of the terms Ingram Micro, we, us and our in these notes to the consolidated financial statements refers to Ingram Micro Inc. and its subsidiaries. These consolidated financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC). In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments (consisting of only normal, recurring adjustments) necessary to fairly state our consolidated financial position as of July 2, 2011, our consolidated results of operations for the thirteen and twenty-six weeks ended July 2, 2011 and July 3, 2010 and our consolidated cash flows for the twenty-six weeks ended July 2, 2011 and July 3, 2010. All significant intercompany accounts and transactions have been eliminated in consolidation. As permitted under the applicable rules and regulations of the SEC, these consolidated financial statements do not include all disclosures and footnotes normally included with annual consolidated financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed with the SEC for the year ended January 1, 2011. The consolidated results of operations for the thirteen and twenty-six weeks ended July 2, 2011 may not be indicative of the consolidated results of operations that can be expected for the full year.

Book Overdrafts

Book overdrafts of \$418,018 and \$517,107 as of July 2, 2011 and January 1, 2011, respectively, represent checks issued on disbursement bank accounts but not yet paid by such banks. These amounts are classified as accounts payable in our consolidated balance sheet. We typically fund these overdrafts through normal collections of funds or transfers from other bank balances at other financial institutions. Under the terms of our facilities with the banks, the respective financial institutions are not legally obligated to honor the book overdraft balances as of July 2, 2011 and January 1, 2011, or any balance on any given date.

Trade Accounts Receivable Factoring Programs

We have an uncommitted factoring program in North America under which trade accounts receivable of one of our larger customers may be sold, without recourse, to a financial institution. The program's total amount of receivables that may be factored at any one point in time cannot exceed \$150,000. We also have an uncommitted factoring program in EMEA under which trade accounts receivable of another of our larger customers may be sold, without recourse, to a financial institution. The program's total amount of receivables that may be factored at any one point in time cannot exceed 40,000, or approximately \$58,000, at July 2, 2011. Available capacity under these programs is dependent on the amount of trade accounts receivable already sold to and held by the financial institutions, the level of our trade accounts receivable eligible to be sold into these programs and the financial institutions' willingness to purchase such receivables. At July 2, 2011 and January 1, 2011, we had a total of \$163,714 and \$112,484, respectively, of trade accounts receivable sold to and held by the financial institutions under these programs. Factoring fees in the amount of \$732 for the thirteen weeks ended July 2, 2011 and \$1,574 for the twenty-six weeks ended July 2, 2011 related to the sale of trade accounts receivable under both facilities are included in other in the other expense (income) section of our consolidated statement of income. There were no factoring fees in the thirteen or twenty-six weeks ended July 3, 2010.

Note 2 Share Repurchases

In October 2010, our Board of Directors authorized a new three-year, \$400,000 share repurchase program, following the completion of our previous share repurchase programs in the second quarter of 2010. Under the program, we may repurchase shares in the open market and through privately negotiated transactions. Our repurchases

will be funded with available borrowing capacity and cash. The timing and amount of specific repurchase transactions will depend upon market conditions, corporate considerations and applicable legal and regulatory requirements. We account for repurchased shares of common stock as treasury stock. Treasury shares are recorded at cost and are included as a component of stockholders' equity in our consolidated balance sheet. We

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INGRAM MICRO INC.
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(Amounts in 000s, except per share data)
(Unaudited)

have also issued shares of common stock out of our cumulative balance of treasury shares. Such shares are issued to certain of our associates upon the vesting of their equity awards under the Ingram Micro Inc. 2011 Equity Incentive Plan (see Note 4). Our stock repurchase and issuance activity for the twenty-six weeks ended July 2, 2011 and July 3, 2010 are summarized in the table below.

	Shares Repurchased	Weighted Average- Price Per Share	Net Amount Repurchased
Cumulative balance at January 1, 2011	23,713	\$ 16.40	\$ 388,817
Repurchase of Class A Common Stock	4,081	18.60	75,906
Issuance of Shares of Class A Common Stock	(538)	19.00	(10,221)
Cumulative balance at July 2, 2011	27,256	16.68	\$ 454,502
Cumulative balance at January 2, 2010	15,095	\$ 16.11	\$ 243,219
Repurchase of Class A Common Stock	8,960	16.99	152,285
Issuance of Shares of Class A Common Stock	(225)	19.67	(4,435)
Cumulative balance at July 3, 2010	23,830	16.41	\$ 391,069

Note 3 Earnings Per Share

We report a dual presentation of Basic Earnings per Share (Basic EPS) and Diluted Earnings per Share (Diluted EPS). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS uses the treasury stock method or the if-converted method, where applicable, to compute the potential dilution that could occur if stock-based awards and other commitments to issue common stock were exercised.

The computation of Basic EPS and Diluted EPS is as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 2, 2011	July 3, 2010	July 2, 2011	July 3, 2010
Net income	\$ 59,731	\$ 67,727	\$ 116,041	\$ 138,055
Weighted average shares	159,383	162,325	159,931	163,747
Basic EPS	\$ 0.37	\$ 0.42	\$ 0.73	\$ 0.84

Weighted average shares, including the dilutive effect of stock-based awards (3,290 and 3,112 for the thirteen weeks ended July 2, 2011 and July 3, 2010, respectively, and 3,897 and 3,322 for the twenty-six weeks ended July 2, 2011 and July 3, 2010, respectively)

162,673 165,437 163,828 167,069

Diluted EPS

\$ 0.37 \$ 0.41 \$ 0.71 \$ 0.83

There were approximately 2,381 and 5,589 stock-based awards for the thirteen weeks ended July 2, 2011 and July 3, 2010, respectively, and 1,375 and 5,562 stock-based awards for the twenty-six weeks ended July 2, 2011 and July 3, 2010, respectively, that were not included in the computation of Diluted EPS because the exercise price was greater than the average market price of the Class A Common Stock during the respective periods, thereby resulting in an antidilutive effect.

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INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in 000s, except per share data)
(Unaudited)

Note 4 Stock-Based Compensation

During the second quarter of 2011, our stockholders approved the Ingram Micro Inc. 2011 Incentive Plan (the 2011 Incentive Plan), which constitutes an amendment and restatement of the Ingram Micro Inc. Amended and Restated 2003 Equity Incentive Plan and a consolidation with the Ingram Micro Inc. 2008 Executive Incentive Plan. The 2011 Incentive Plan increased the number of shares that we may issue by 13,500 shares, for the granting of stock-based incentive awards including incentive stock options, non-qualified stock options, restricted stock, restricted stock units and stock appreciation rights, among others, to key employees and members of our Board of Directors. We have granted time- and/or performance-vested restricted stock and/or restricted stock units, in addition to stock options, to key employees and members of our Board of Directors. In 2011 and 2010, a portion of the performance-vested restricted stock units granted to management is based on the performance measurement of profit before tax, with the remainder based on earnings per share growth and return on invested capital versus preset targets.

No stock options were granted during the thirteen weeks ended July 2, 2011 or July 3, 2010, while restricted stock and restricted stock units granted were 23 and 80, respectively. Stock options granted during the twenty-six weeks ended July 2, 2011 and July 3, 2010 were 39 and 48, respectively, and restricted stock and restricted stock units granted were 1,759 and 1,802, respectively. As of July 2, 2011, approximately 15,554 shares were available for grant under the 2011 Incentive Plan, taking into account granted options, time-vested restricted stock units/awards and performance-vested restricted stock units assuming maximum achievement. Stock-based compensation expense for the thirteen weeks ended July 2, 2011 and July 3, 2010 was \$10,331 and \$7,034, respectively, and the related income tax benefit was approximately \$2,768 and \$2,134, respectively. Stock-based compensation expense for the twenty-six weeks ended July 2, 2011 and July 3, 2010 was \$15,988 and \$11,065, respectively, and the related income tax benefit was approximately \$4,490 and \$3,480, respectively.

During the thirteen weeks ended July 2, 2011 and July 3, 2010, a total of 283 and 240 stock options, respectively, were exercised, and 338 and 42 restricted stock and restricted stock units vested, respectively. For the twenty-six weeks ended July 2, 2011 and July 3, 2010, a total of 2,011 and 801 stock options, respectively, were exercised, and 1,088 and 732 restricted stock and restricted stock units vested, respectively. During the twenty-six weeks ended July 2, 2011 and July 3, 2010, the Board of Directors determined that the performance measures for certain performance-based grants were not met, resulting in the cancellation of approximately 772 and 492 shares, respectively.

Note 5 Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following:

	Thirteen Weeks		Twenty-six Weeks	
	Ended		Ended	
	July 2,	July 3,	July 2,	July 3,
	2011	2010	2011	2010
Net income	\$ 59,731	\$ 67,727	\$ 116,041	\$ 138,055
Changes in foreign currency translation adjustments and other	25,437	(76,955)	95,513	(115,281)
Comprehensive income (loss)	\$ 85,168	\$ (9,228)	\$ 211,554	\$ 22,774

Accumulated other comprehensive income included in stockholders' equity consisted primarily of foreign currency translation adjustments and fair value adjustments to our interest rate swap agreement and foreign currency forward contracts designated as cash flow hedges.

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(Amounts in 000s, except per share data)
(Unaudited)

Note 6 Derivative Financial Instruments

The notional amounts and fair values of derivative instruments in our consolidated balance sheet were as follows:

	Notional Amounts (1)		Fair Value	
	July 2, 2011	January 1, 2011	July 2, 2011	January 1, 2011
Derivatives designated as hedging instruments recorded in:				
Other current assets				
Foreign exchange contracts	\$ 10,613	\$	\$ 638	\$
Accrued expenses				
Foreign exchange contracts	11,456	71,253	(1,047)	(5,078)
Long-term debt				
Interest rate contracts	178,125	184,375	(6,789)	(9,252)
	200,194	255,628	(7,198)	(14,330)
Derivatives not receiving hedge accounting treatment recorded in:				
Other current assets				
Foreign exchange contracts	324,489	347,108	272	585
Accrued expenses				
Foreign exchange contracts	736,859	726,187	(8,188)	(11,428)
	1,061,348	1,073,295		