

INGRAM MICRO INC
Form 10-Q
November 10, 2009

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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 October 3, 2009

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 had 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 Smaller reporting company

(Do not check if a 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 163,619,035 shares of Class A Common Stock, par value \$0.01 per share, outstanding at October 3, 2009.

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INGRAM MICRO INC.
CONSOLIDATED BALANCE SHEET
(Dollars in 000s, except per share data)
(Unaudited)

	October 3, 2009	January 3, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,229,918	\$ 763,495
Trade accounts receivable (less allowances of \$81,032 and \$73,638)	3,174,702	3,179,455
Inventory	2,206,997	2,306,617
Other current assets	384,907	425,270
Total current assets	6,996,524	6,674,837
Property and equipment, net	214,470	202,142
Other assets	222,337	206,494
Total assets	\$ 7,433,331	\$ 7,083,473
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 3,647,125	\$ 3,427,362
Accrued expenses	402,268	485,573
Current maturities of long-term debt	159,153	121,724
Total current liabilities	4,208,546	4,034,659
Long-term debt, less current maturities	276,657	356,664
Other liabilities	60,607	36,305
Total liabilities	4,545,810	4,427,628
Commitments and contingencies (Note 13)		
Stockholders equity:		
Preferred Stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued and outstanding		
Class A Common Stock, \$0.01 par value, 500,000,000 shares authorized; 178,802,245 and 176,582,434 shares issued and 163,619,035 and 161,330,221 shares outstanding at October 3, 2009 and January 3, 2009, respectively	1,788	1,766
Class B Common Stock, \$0.01 par value, 135,000,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	1,187,953	1,145,145

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Treasury stock, 15,183,210 and 15,252,213 shares at October 3, 2009 and January 3, 2009, respectively	(244,956)	(246,314)
Retained earnings	1,775,672	1,680,557
Accumulated other comprehensive income	167,064	74,691
Total stockholders' equity	2,887,521	2,655,845
Total liabilities and stockholders' equity	\$ 7,433,331	\$ 7,083,473

See accompanying notes to these consolidated financial statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2009	September 27, 2008	October 3, 2009	September 27, 2008
Net sales	\$ 7,384,574	\$ 8,283,703	\$ 20,708,256	\$ 25,677,635
Cost of sales	6,982,664	7,830,847	19,539,237	24,251,850
Gross profit	401,910	452,856	1,169,019	1,425,785
Operating expenses:				
Selling, general and administrative	331,725	376,784	989,985	1,150,585
Impairment of goodwill			2,490	
Reorganization costs	7,004	3,614	27,124	10,227
	338,729	380,398	1,019,599	1,160,812
Income from operations	63,181	72,458	149,420	264,973
Other expense (income):				
Interest income	(2,574)	(5,949)	(7,254)	(13,680)
Interest expense	7,433	15,647	20,468	48,889
Net foreign currency exchange loss (gain)	728	1,673	4,362	(2,130)
Other	1,186	797	3,563	2,567
	6,773	12,168	21,139	35,646
Income before income taxes	56,408	60,290	128,281	229,327
Provision for income taxes	14,102	13,916	33,166	59,963
Net income	\$ 42,306	\$ 46,374	\$ 95,115	\$ 169,364
Basic earnings per share	\$ 0.26	\$ 0.28	\$ 0.59	\$ 1.01
Diluted earnings per share	\$ 0.25	\$ 0.27	\$ 0.58	\$ 0.99

See accompanying notes to these consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	October 3,	September
	2009	27,
		2008
Cash flows from operating activities:		
Net income	\$ 95,115	\$ 169,364
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	51,483	52,339
Impairment of goodwill	2,490	
Stock-based compensation	14,785	15,529
Excess tax benefit from stock-based compensation	(3,407)	(1,378)
Noncash charges for interest and other compensation	225	260
Deferred income taxes	2,387	13,318
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	20,616	763,896
Inventory	111,464	234,695
Other current assets	38,662	39,571
Accounts payable	222,109	(642,445)
Change in book overdrafts	(18,291)	(13,812)
Accrued expenses	(58,676)	(137,293)
Cash provided by operating activities	478,962	494,044
Cash flows from investing activities:		
Purchases of property and equipment	(46,959)	(44,392)
Sale of (investments in) marketable trading securities	981	(1,895)
Collection of short-term collateral deposits on financing arrangements	3,270	35,000
Acquisitions, net of cash acquired	(18,458)	(4,249)
Cash used by investing activities	(61,166)	(15,536)
Cash flows from financing activities:		
Proceeds from exercise of stock options	26,636	23,028
Repurchase of Class A Common Stock		(169,123)
Excess tax benefit from stock-based compensation	3,407	1,378
Proceeds from senior unsecured term loan		250,000
Net repayments on revolving credit facilities	(42,781)	(315,868)
Cash used by financing activities	(12,738)	(210,585)
Effect of exchange rate changes on cash and cash equivalents	61,365	(40,311)

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Increase in cash and cash equivalents	466,423	227,612
Cash and cash equivalents, beginning of period	763,495	579,626
Cash and cash equivalents, end of period	\$ 1,229,918	\$ 807,238

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars 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 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 October 3, 2009, our consolidated results of operations for the thirteen and thirty-nine weeks ended October 3, 2009 and September 27, 2008, and our consolidated cash flows for the thirty-nine weeks ended October 3, 2009 and September 27, 2008. 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 3, 2009. The consolidated results of operations for the thirteen and thirty-nine weeks ended October 3, 2009 may not be indicative of the consolidated results of operations that can be expected for the full year. We have evaluated subsequent events through November 10, 2009, the date of issuance of our Form 10-Q for the quarter ended October 3, 2009.

Book Overdrafts

Book overdrafts of \$296,742 and \$315,033 as of October 3, 2009 and January 3, 2009, respectively, represent checks issued that had not been presented for payment to the banks and 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. Under the terms of our facilities with the banks, the respective financial institutions are not legally obligated to honor our book overdraft balances as of October 3, 2009 and January 3, 2009, or any balance on any given date.

Note 2 Share Repurchases

In November 2007, our Board of Directors authorized a share repurchase program, through which we may purchase up to \$300,000 of our outstanding shares of common stock, over a three-year period. Under the program, we may repurchase shares in the open market and through privately negotiated transactions. In light of the current economic environment, we did not have any share repurchases during the thirty-nine weeks ended October 3, 2009. However, we may repurchase shares under the program in the future without prior notice. The timing and amount of specific repurchase transactions will depend upon market conditions, corporate considerations and applicable legal and regulatory requirements. The repurchases will be funded with available borrowing capacity and cash.

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

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. The stock repurchase and issuance activity during the thirty-nine weeks ended October 3, 2009 and September 27, 2008 is summarized as follows:

	Shares Repurchased (Issued)	Weighted Average Price Per Share	Amount Repurchased (Issued)
Cumulative balance at January 3, 2009	15,252,213	\$ 16.15	\$ 246,314
Issued shares of common stock	(69,003)	19.67	(1,358)
Cumulative balance at October 3, 2009	15,183,210	16.13	\$ 244,956
Cumulative balance at December 29, 2007	1,301,491	\$ 19.26	\$ 25,061
Repurchase of shares of common stock	10,056,300	16.82	169,123
Cumulative balance at September 27, 2008	11,357,791	17.10	\$ 194,184

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 reflects the potential dilution that could occur if stock awards and other commitments to issue common stock were exercised, using the treasury stock method or the if-converted method, where applicable.

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

	Thirteen Weeks Ended September		Thirty-nine Weeks Ended September	
	October 3, 2009	27, 2008	October 3, 2009	27, 2008
Net income	\$ 42,306	\$ 46,374	\$ 95,115	\$ 169,364
Weighted average shares	163,521,773	165,408,159	162,558,858	167,798,623
Basic EPS	\$ 0.26	\$ 0.28	\$ 0.59	\$ 1.01
Weighted average shares, including the dilutive effect of stock-based awards (3,216,852 and 3,931,922 for the thirteen weeks ended October 3, 2009 and September 27, 2008, respectively, and 2,161,521 and 3,463,357 for the	166,738,625	169,340,081	164,720,379	171,261,980

thirty-nine weeks ended October 3, 2009
and September 27, 2008, respectively)

Diluted EPS	\$	0.25	\$	0.27	\$	0.58	\$	0.99
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There were approximately 6,502,000 and 3,553,000 stock-based awards for the thirteen weeks ended October 3, 2009 and September 27, 2008, respectively, and 9,697,000 and 6,292,000 stock-based awards for the thirty-nine weeks ended October 3, 2009 and September 27, 2008, 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
(Dollars in 000s, except per share data)
(Unaudited)

Note 4 Stock-Based Compensation

We currently have a single equity incentive-based plan approved by our stockholders, the Ingram Micro Inc. Amended and Restated 2003 Equity Incentive Plan (the 2003 Plan), for the granting of equity-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. Under the 2003 Plan, the existing authorized pool of shares available for grant was converted to a fungible pool, whereas the authorized share limit will be reduced by one share for every share subject to a stock option or stock appreciation right granted and 1.9 shares for every share granted under any award other than an option or stock appreciation right. We grant restricted stock and restricted stock units, in addition to stock options, to key employees and members of our Board of Directors. Options granted generally vest over a period of three years and have expiration dates not longer than 10 years. A portion of the restricted stock and restricted stock units vests over a time period of one to three years. The remainder of the restricted stock and restricted stock units vests upon achievement of certain performance measures over a time period of one to three years.

Starting in 2009, the performance measures for restricted stock and restricted stock units are based on economic profit and profit before tax, whereas in previous years, they were based on earnings growth and return on invested capital. The aggregate of restricted stock and restricted stock units granted were 24,000 and 36,000 during the thirteen weeks ended October 3, 2009 and September 27, 2008, respectively, and 3,425,000 and 1,737,000 during the thirty-nine weeks ended October 3, 2009 and September 27, 2008, respectively. No stock options were granted during the thirteen weeks ended October 3, 2009. During the thirteen weeks ended September 27, 2008, there were 16,000 stock options granted. Stock options granted during the thirty-nine weeks ended October 3, 2009 and September 27, 2008 were 141,000 and 1,334,000, respectively. As of October 3, 2009, approximately 3,957,000 shares were available for grant under the 2003 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 October 3, 2009 was \$6,927 and the related income tax benefit was approximately \$1,700, while the stock-based compensation expense for the thirteen weeks ended September 27, 2008 was \$331 with an associated income tax expense during the quarter of \$117. Stock-based compensation expense for the thirty-nine weeks ended October 3, 2009 and September 27, 2008 was \$14,785 and \$15,529, respectively, and the related income tax benefit was approximately \$3,800 and \$4,030, respectively.

During the thirteen weeks ended October 3, 2009 and September 27, 2008, a total of 564,000 and 925,000 stock options, respectively, were exercised, and 23,000 and 18,000 restricted stock and restricted stock units vested, respectively. During the thirty-nine weeks ended October 3, 2009 and September 27, 2008, a total of 2,233,000 and 1,570,000 stock options, respectively, were exercised, and 80,000 and 514,000 restricted stock and restricted stock units vested, respectively. During the thirty-nine weeks ended October 3, 2009, the Human Resources Committee of the Board of Directors determined that the performance measures for certain performance-based grants were not met, resulting in the cancellation of approximately 394,000 restricted stock units.

Note 5 Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October	September	October	September
	3,	27,	3,	27,
	2009	2008	2009	2008
Net income	\$ 42,306	\$ 46,374	\$ 95,115	\$ 169,364
Changes in other comprehensive income (loss)	58,504	(119,156)	92,373	(42,058)

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Comprehensive income (loss)	\$ 100,810	\$ (72,782)	\$ 187,488	\$ 127,306
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Accumulated other comprehensive income included in stockholders' equity totaled \$167,064 and \$74,691 at October 3, 2009 and January 3, 2009, respectively, and consisted primarily of cumulative foreign currency translation adjustments.

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

Note 6 Derivative Financial Instruments

Effective January 4, 2009, we adopted a standard issued by the Financial Accounting Standards Board (the FASB) intended to expand the quarterly and annual disclosure requirements about our derivative instruments and hedging activities.

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

	Notional Amounts (1)		Fair Value	
	October 3, 2009	January 3, 2009	October 3, 2009	January 3, 2009
Derivatives designated as hedging instruments recorded in:				
Other current assets				
Foreign exchange contracts	\$ 7,583	\$ 436,662	\$ 324	\$ 15,534
Accrued expenses				
Foreign exchange contracts	436,779		(10,947)	
Long-term debt				
Interest rate swap contracts	200,000	200,000	(11,187)	(11,754)
	644,362	636,662	(21,810)	3,780
Derivatives not receiving hedge accounting treatment recorded in:				
Other current assets				
Foreign exchange contracts	190,469	494,536	1,605	(1,076)
Accrued expenses				
Foreign exchange contracts	399,760	287,252	(4,120)	(5,444)
	590,229	781,788	(2,515)	(6,520)
Total	\$ 1,234,591	\$ 1,418,450	\$ (24,325)	\$ (2,740)