INGRAM MICRO INC
Form 10-Q
November 07, 2005

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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 October 1, 2005

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: 1-12203

Ingram Micro Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**62-1644402**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 E. St. Andrew Place, Santa Ana, California 92705-4931

(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 **þ** No **o**

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes **þ** No **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

The Registrant had 161,005,967 shares of Class A Common Stock, par value $0.01 per share, outstanding at October 1, 2005.

INGRAM MICRO INC.
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Part I. Financial Information

Item 1. Financial Statements

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

	October 1, 2005	January 1, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 429,221	$ 398,423
Trade accounts receivable (less allowances of $93,238 and $93,465)	2,785,792	3,037,417
Inventories	1,933,718	2,175,185
Other current assets	339,115	471,137
Total current assets	5,487,846	6,082,162
Property and equipment, net	182,465	199,133
Goodwill	610,993	559,665
Other	144,967	85,777
Total assets	$ 6,426,271	$ 6,926,737
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,951,366	$ 3,536,880
Accrued expenses	440,121	607,684
Current maturities of long-term debt	168,985	168,649
Total current liabilities	3,560,472	4,313,213
Long-term debt, less current maturities	486,290	346,183
Other liabilities	33,247	26,531
Total liabilities	4,080,009	4,685,927
Commitments and contingencies (Note 8)		
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; 161,005,967 and 158,737,898 shares issued and outstanding	1,610	1,587
Class B Common Stock, $0.01 par value, 135,000,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	848,956	817,378

Retained earnings	1,454,404	1,321,855
Accumulated other comprehensive income	41,572	99,990
Unearned compensation	(280)	
Total stockholders equity	2,346,262	2,240,810
Total liabilities and stockholders equity	$ 6,426,271	$ 6,926,737

See accompanying notes to these consolidated financial statements.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net sales	$ 6,959,334	$ 6,016,389	$ 20,851,812	$ 18,008,648
Cost of sales	6,577,531	5,686,798	19,722,994	17,026,129
Gross profit	381,803	329,591	1,128,818	982,519
Operating expenses:				
Selling, general and administrative	296,888	272,064	887,397	810,342
Reorganization costs	1,981	(2,652)	10,959	(2,456)
	298,869	269,412	898,356	807,886
Income from operations	82,934	60,179	230,462	174,633
Other expense (income):				
Interest income	(1,045)	(2,255)	(2,531)	(5,963)
Interest expense	11,936	8,370	36,123	26,576
Losses on sales of receivables	303	665	1,002	3,613
Loss on redemption of senior subordinated notes and related interest-rate swap agreements	8,413		8,413	
Net foreign currency exchange loss (gain)	(444)	(3,066)	2,445	(728)
Other	1,498	1,609	3,972	3,009
	20,661	5,323	49,424	26,507
Income before income taxes	62,273	54,856	181,038	148,126
Provision for (benefit from) income taxes	13,873	(22,424)	48,489	7,423
Net income	$ 48,400	$ 77,280	$ 132,549	$ 140,703
Basic earnings per share	$ 0.30	$ 0.50	$ 0.83	$ 0.91

Diluted earnings per share	$	0.29	$	0.49	$	0.81	$	0.89

See accompanying notes to these consolidated financial statements.

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

	Thirty-nine Weeks Ended	
	October 1, 2005	October 2, 2004
Cash flows from operating activities:		
Net income	$ 132,549	$ 140,703
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	47,920	43,580
Loss on redemption of senior subordinated notes and interest-rate swap agreements	8,413	
Noncash gain on forward currency exchange contract		(4,277)
Noncash charges for interest and compensation	2,414	2,733
Deferred income taxes	(20,894)	(28,264)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Changes in amounts sold under accounts receivable programs		(60,000)
Accounts receivable	194,611	225,755
Inventories	244,419	371,510
Other current assets	142,411	(19,739)
Accounts payable	(499,792)	(103,041)
Accrued expenses	(152,376)	72,899
Cash provided by operating activities	99,675	641,859
Cash flows from investing activities:		
Purchases of property and equipment	(27,321)	(26,223)
Acquisitions, net of cash acquired	(141,176)	(9,683)
Other		1,110
Cash used by investing activities	(168,497)	(34,796)
Cash flows from financing activities:		
Proceeds from exercise of stock options	26,531	47,121
Redemption of senior subordinated notes, net	(205,801)	
Change in book overdrafts	(53,967)	(72,815)
Net proceeds from (repayments of) debt	355,783	(41,777)
Cash provided (used) by financing activities	122,546	(67,471)
Effect of exchange rate changes on cash and cash equivalents	(22,926)	5,679

Increase in cash and cash equivalents		30,798		545,271
Cash and cash equivalents, beginning of period		398,423		279,587
Cash and cash equivalents, end of period	$	429,221	$	824,858

See accompanying notes to these consolidated financial statements.

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

Note 1 Organization and Basis of Presentation

Ingram Micro Inc. (Ingram Micro) and its subsidiaries are primarily engaged in the distribution of information technology (IT) products and supply chain management services worldwide. Ingram Micro operates in North America, Europe, Asia-Pacific and Latin America.

The consolidated financial statements include the accounts of Ingram Micro and its subsidiaries (collectively referred to herein as the Company). These financial statements have been prepared by the Company, 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 the financial position of the Company as of October 1, 2005, and its results of operations for the thirteen and thirty-nine weeks ended October 1, 2005 and October 2, 2004, and cash flows for the thirty-nine weeks ended October 1, 2005 and October 2, 2004. All significant intercompany accounts and transactions have been eliminated in consolidation. As permitted under the applicable rules and regulations of the SEC, these 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 the Company s Annual Report on Form 10-K filed with the SEC for the year ended January 1, 2005. The results of operations for the thirteen and thirty-nine weeks ended October 1, 2005 may not be indicative of the results of operations that can be expected for the full year.

Note 2 Earnings Per Share

The Company reports 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 options, warrants, 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		Thirty-nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net income	$ 48,400	$ 77,280	$ 132,549	$ 140,703
Weighted average shares	160,549,321	155,638,665	159,797,559	154,821,559
Basic earnings per share	$ 0.30	$ 0.50	$ 0.83	$ 0.91
Weighted average shares, including the dilutive effect of stock options and warrants (3,855,735 and 2,571,948 for the thirteen weeks ended October 1, 2005 and October 2, 2004, respectively, and 3,786,541and 3,689,348 for the thirty-nine weeks ended October 1, 2005 and October 2, 2004, respectively)	164,405,056	158,210,613	163,584,100	158,510,907

Diluted earnings per share	$	0.29	$	0.49	$	0.81	$	0.89

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(Dollars in 000 s, except per share data)
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There were approximately 8,959,000 and 14,012,000 stock options for the thirteen weeks ended October 1, 2005 and October 2, 2004, respectively, and 9,137,000 and 13,535,000 stock options for the thirty-nine weeks ended October 1, 2005 and October 2, 2004, 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.

Accounting for Stock-Based Compensation

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS 148), which amends Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). As permitted by FAS 148, the Company continues to measure compensation cost in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations, but provides pro forma disclosures of net income and earnings per share as if the fair-value method had been applied. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions to stock-based employee compensation.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net income, as reported	$ 48,400	$ 77,280	$ 132,549	$ 140,703
Compensation expense as determined under FAS 123, net of related tax effects	4,702	5,512	14,941	17,762
Pro forma net income	$ 43,698	$ 71,768	$ 117,608	$ 122,941
Earnings per share:				
Basic as reported	$ 0.30	$ 0.50	$ 0.83	$ 0.91
Basic pro forma	$ 0.27	$ 0.46	$ 0.74	$ 0.79
Diluted as reported	$ 0.29	$ 0.49	$ 0.81	$ 0.89
Diluted pro forma	$ 0.27	$ 0.46	$ 0.72	$ 0.78

The weighted average fair value per option granted was $6.54 and $4.89 for the thirteen weeks ended October 1, 2005 and October 2, 2004, respectively, and $6.03 and $4.78 for the thirty-nine weeks ended October 1, 2005 and October 2, 2004, respectively. The fair value of options was estimated using the Black-Scholes option-pricing model assuming no dividends and using the following weighted average assumptions:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 1,	October 2,	October 1,	October 2,

	2005	2004	2005	2004
Risk-free interest rate	4.18%	2.92%	3.70%	2.71%
Expected years until exercise	3.5 years	3.0 years	3.5 years	3.0 years
Expected stock volatility	42.0%	43.6%	41.8%	41.8%

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(Unaudited)

Note 3 Comprehensive Income

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (FAS 130) establishes standards for reporting and displaying comprehensive income and its components in the Company s consolidated financial statements. Comprehensive income is defined in FAS 130 as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources and is comprised of net income and other comprehensive income, which consists solely of changes in foreign currency translation adjustments, for the thirteen weeks and for the thirty-nine weeks ended October 1, 2005 and October 2, 2004 as summarized below:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net income	$ 48,400	$ 77,280	$ 132,549	$ 140,703
Changes in foreign currency translation adjustments	10,224	14,593	(58,418)	(6,648)
Comprehensive income	$ 58,624	$ 91,873	$ 74,131	$ 134,055

Accumulated other comprehensive income included in stockholders equity totaled $41,572 and $99,990 at October 1, 2005 and January 1, 2005, respectively, and consisted solely of foreign currency translation adjustments.

Note 4 Goodwill and Acquisitions

The changes in the carrying amount of goodwill for the thirty-nine weeks ended October 1, 2005 and October 2, 2004 are as follows:

	North America	Europe	Asia-Pacific	Latin America	Total
Balance at January 1, 2005	$ 78,495	$ 12,775	$ 468,395	$	$ 559,665
Acquisitions	47,583		4,904		52,487
Foreign currency translation	(346)	(1,488)	675		(1,159)
Balance at October 1, 2005	$ 125,732	$ 11,287	$ 473,974	$	$ 610,993
Balance at January 3, 2004	$ 78,444	$ 9,308	$ 156,422	$	$ 244,174
Acquisitions	426	1,078			1,504
Foreign currency translation	15	(151)	(149)		(285)
Balance at October 2, 2004	$ 78,885	$ 10,235	$ 156,273	$	$ 245,393

In January 2005, the Company acquired the remaining shares of stock held by minority shareholders of a subsidiary in New Zealand. The total purchase price for this acquisition consisted of a cash payment of $225, resulting in the recording of approximately $206 of goodwill in Asia-Pacific.

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

For the thirty-nine weeks ended October 1, 2005, the Company made an adjustment to the purchase price allocation associated with the acquisition of Techpac Holdings Limited, or Tech Pacific. The adjustment reflects additional liabilities of $4,327 for costs associated with reductions in Tech Pacific s workforce as well as closure and consolidation of redundant facilities of the acquired company. This adjustment resulted in an increase of goodwill for that same amount.

In July 2005, the Company acquired certain net assets of AVAD, the leading distributor of home technology integration solutions for custom installers in the U.S. This strategic acquisition will accelerate the Company s entry into the adjacent consumer electronics market and improve the Company s operating margin in its North American operations. AVAD was acquired for an initial purchase price of $136,272, subject to the final determination of its net asset value. The purchase agreement also requires the Company to pay the seller earn-out payments of up to $80,000 over the next three years, if certain performance levels are achieved, and additional payments of up to $100,000 are possible in 2010, if extraordinary performance levels are achieved over a five-year period. Such payments, if any, will be recorded as an adjustment to the initial purchase price. The initial purchase price was preliminarily allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date, resulting in the initial recording of $47,583 of goodwill, $24,200 of trademarks with indefinite lives and $28,585 of vendor relationships and other amortizable intangible assets with average estimated useful lives of approximately 10 years. Goodwill is expected to be fully deductible for tax purposes. The Company is in the process of completing the valuation of identifiable intangible assets and expects to finalize the valuation during the fourth quarter of fiscal year 2005.

In July 2005, the Company acquired the remaining shares held by minority shareholders in an India-based subsidiary. The total purchase price for this acquisition consisted of a cash payment of $371, resulting in the recording of the same amount in goodwill.

In July 2004, the Company acquired substantially all of the assets and assumed certain liabilities of Nimax, Inc., a privately held distributor of automatic identification and data capture/point-of-sale, barcode and wireless products, as well as enterprise mobility solutions. The purchase price, consisting of a cash payment of $8,605 at July 30, 2004 (adjusted to $8,749 at end of fiscal year 2004) and $1,000 payable on or before October 31, 2006, was preliminarily allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date. This resulted in the initial recording of $426 of goodwill and $1,103 of other amortizable intangible assets primarily related to customer and vendor relationships (adjusted to $0 and $918, respectively, at end of fiscal year 2004). In addition to the cash payments, the purchase agreement requires the Company to pay the seller up to $6,000 at the end of two years, based on a specified earn-out formula, which will be recorded as an additional adjustment to the purchase price.

The addition to goodwill of $1,078 in Europe during the first quarter of 2004 represents the amount paid to the seller for the first year s achievement of the earn-out related to the Company s acquisition of an IT distributor in Belgium in 2002. The second year s achievement of $1,532 was recorded during the fourth quarter of 2004. These cash payments are an addition to the initial purchase price required by the purchase agreement, which requires the Company to pay the seller up to Euro 1.13 million for each of the next three years after 2002 based on an earn-out formula.

Note 5 Reorganization, Integration and Major-Program Costs

In April 2005, the Company announced an outsourcing and optimization plan that is expected to improve operating efficiencies within its North American region. A key component of the plan is an outsourcing arrangement that moves transaction-oriented service and support functions including certain North America positions in finance and shared services, customer service, vendor management and certain U.S. positions in technical support and inside sales (excluding field sales and management positions) to a leading global business process outsource provider. The Company expects the outsourcing transition to be substantially complete by the end of 2005. As part of the plan, the Company has also restructured and consolidated other job functions within the North American region. The Company expects savings generated by the optimization plan to be approximately $10,000 in 2005, starting in the second quarter

and ramping up to an annualized savings of $25,000 by the end of the first quarter of 2006. Total costs of the actions, or major-program costs, are estimated at approximately $26,000, of which approximately $4,717 ($709 of reorganization costs primarily for workforce reductions and $4,008 of other

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

major-program costs charged to selling, general and administrative expenses, or SG&A expenses, as described under the discussion of integration and major-program costs) and $21,001 ($6,319 of reorganization costs, primarily workforce reduction and $14,682 of other major-program costs) were incurred in the thirteen and thirty-nine weeks ended October 1, 2005, respectively, with the remainder expected to be incurred by the fourth quarter of 2005.

In November 2004, the Company acquired all of the outstanding shares of Tech Pacific. The Company continues its integration of the operations of its pre-existing Asia-Pacific business with Tech Pacific and expects to incur integration expenses of approximately $15,000, in the aggregate, which will be substantially recognized through 2005. During the thirteen and thirty-nine weeks ended October 1, 2005, integration expenses incurred totaled $2,512 and $10,055, respectively. The integration costs for the thirteen weeks ended October 1, 2005 consist of $1,286 of reorganization costs primarily for workforce reductions, closure of redundant facilities and other contract termination costs related to the reorganization and $1,226 of other costs charged to SG&A primarily for consulting, retention and other expenses related to the integration of this acquisition. Integration costs for the thirty-nine weeks ended October 1, 2005 consist of $4,675 of reorganization costs primarily for workforce reductions, closure of redundant facilities and other contract termination costs related to the integration and $5,380 of other costs charged to SG&A expenses, as described under the discussion of integration and major-program costs.

In addition, in prior periods the Company has implemented other actions designed to improve operating income through enhancements in gross margins and reduction of SG&A expenses. Key components of those initiatives included enhancement and/or rationalization of vendor and customer programs, optimization of facilities and systems, outsourcing of certain IT infrastructure functions, geographic consolidations and administrative restructuring.

Reorganization Costs

Quarter ended October 1, 2005

The reorganization costs of $1,981 for the thirteen weeks ended October 1, 2005 consists of $1,600 relating to the outsourcing and optimization plan in North America, $1,286 relating to the integration of Tech Pacific in Asia-Pacific; partially offset by net adjustments of $905 for detailed actions taken in previous quarters. The net adjustment of $905 consists of credit adjustments of $862 (credit of $910 in North America and charge of $48 in Europe) relating to previous actions for lower than expected lease obligation costs and $43 (credit of $62 in Europe and charge of $19 in North America) for higher than expected employee termination benefits for previous quarters.

The reorganization costs of $1,600 in North America reflect employee termination benefits for approximately 315 employees. The reorganization costs of $1,286 in Asia-Pacific include employee termination benefits of $570 for approximately 15 employees, $627 for estimated lease exit costs in connection with closing and consolidating redundant facilities and $89 of other costs primarily due to contract terminations.

The reorganization costs, related payment activities and adjustments for the thirteen weeks ended October 1, 2005 and the remaining liability at October 1, 2005 related to these detailed actions are summarized as follows:

	Reorganization Costs	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 1, 2005
Employee termination benefits	$ 2,170	$ 1,020	$	$ 1,150
Facility costs	627	627		
Other costs	89	80		9

Total	$	2,886	$	1,727	$	$	1,159

Quarter ended July 2, 2005

The reorganization costs of $6,286 for the thirteen weeks ended July 2, 2005 consists of $4,869 relating to the outsourcing and optimization plan in North America and $1,438 relating to the integration of Tech Pacific, partially offset by a credit adjustment of $21 relating to a previous action for lower than expected lease obligation costs in Europe.

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

The reorganization costs of $4,869 in North America reflect employee termination benefits for approximately 250 employees. The reorganization costs of $1,438 in Asia-Pacific include employee termination benefits of $1,207 for approximately 60 employees, $169 for estimated lease exit costs in connection with closing and consolidating redundant facilities and $62 of other costs primarily due to contract terminations.

The reorganization costs, related payment activities and adjustments for the twenty-six weeks ended October 1, 2005 and the remaining liability at October 1, 2005 related to these detailed actions are summarized as follows:

	Reorganization Costs	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 1, 2005
Employee termination benefits	$ 6,076	$ 3,876	$ 19	$ 2,219
Facility costs	169	169		
Other costs	62	62		
Total	$ 6,307	$ 4,107	$ 19	$ 2,219

The adjustment of $19 primarily reflects higher than expected employee termination benefits recorded in the third quarter of 2005 in North America.

Quarter ended April 2, 2005

The reorganization costs of $2,692 for the thirteen weeks ended April 2, 2005 consists of $1,951 relating to the integration of Tech Pacific, $441 relating to the outsourcing and optimization plan in North America, and an adjustment of $300 related to a previous action for higher than expected costs to settle a lease obligation.

The reorganization costs of $441 in North America reflect employee termination benefits for approximately 15 employees. The reorganization charge of $1,951 in Asia-Pacific includes employee termination benefits of $1,655 for approximately 230 employees, $211 for estimated lease exit costs in connection with closing and consolidating redundant facilities and $85 of other costs primarily due to contract terminations.

The reorganization costs, related payment activities and adjustments for the thirty-nine weeks ended October 1, 2005 and the remaining liability at October 1, 2005 related to these detailed actions are summarized as follows:

	Reorganization Costs	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 1, 2005
Employee termination benefits	$ 2,096	$ 1,862	$	$ 234
Facility costs	211	134		77
Other costs	85	85		
Total	$ 2,392	$ 2,081	$	$ 311

Year ended January 1, 2005

The credit to reorganization of $2,896 for 2004 consisted of $316 incurred and paid for workforce reductions in Asia-Pacific in fiscal year 2004 and net credit adjustments of $3,212 related to detailed actions taken in previous quarters. The credit adjustments of $3,212 primarily consisted of $184 ($125 in North America and $59 in Europe) for lower than expected costs associated with employee termination benefits and $3,028 (net credit adjustments of $2,109 in North America and $919 in Europe) for lower than expected lease exit costs associated with facility consolidations.

Year ended January 3, 2004

Reorganization costs for fiscal year 2003 were primarily comprised of employee termination benefits for workforce reductions worldwide and lease exit costs for facility consolidations in North America, Europe and Latin America. These restructuring actions are complete; however, future cash outlays will be required primarily due to severance payment terms and future lease payments related to exited facilities.

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

The payment activities and adjustments for the thirty-nine weeks ended October 1, 2005 and the remaining liability at October 1, 2005 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 1, 2005	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 1, 2005
Employee termination benefits	$ 164	$ 164	$	$
Facility costs	2,198	1,939	27	286
Total	$ 2,362	$ 2,103	$ 27	$ 286

The adjustment of $27 (charge of $48 recorded in the third quarter of 2005 and a credit of $21 recorded in the second quarter of 2005) primarily reflects higher than expected lease obligation costs in Europe.

Actions prior to December 28, 2002

Prior to December 28, 2002, detailed actions under the Company s reorganization plans included workforce reductions and facility consolidations worldwide as well as outsourcing of certain IT infrastructure functions. Facility consolidations primarily included consolidation, closing or downsizing of office facilities, distribution centers, returns processing centers and configuration centers throughout North America, consolidation and/or exit of warehouse and office facilities in Europe, Latin America and Asia-Pacific; and other costs primarily comprised of contract termination expenses associated with outsourcing certain IT infrastructure functions as well as other costs associated with the reorganization activities. These restructuring actions are completed; however, future cash outlays will be required primarily for future lease payments related to exited facilities.

The payment activities and adjustments for the thirty-nine weeks ended October 1, 2005 and the remaining liability at October 1, 2005 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 1, 2005	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 1, 2005
Employee termination benefits	$ 160	$ 25	$ (62)	$ 73
Facility costs	9,508	2,949	(610)	5,949
Total	$ 9,668	$ 2,974	$ (672)	$ 6,022

The net adjustments reflect lower than expected costs to settle a lease obligation totaling $610 in North America (charge of $300 recorded in the first quarter of 2005 and credit of $910 recorded in the third quarter of 2005) and $62 for lower than expected employee termination benefits in Europe recorded in the third quarter of 2005.

Integration and Major-Program Costs

For the thirteen weeks ended October 1, 2005, integration and major-program costs recorded in SG&A expenses totaled $5,234 ($4,008 of other major-program costs related to the outsourcing and optimization plan in North America announced in April 2005 and $1,226 of integration-related costs for Tech Pacific). For the thirty-nine weeks ended October 1, 2005, integration and major-program costs recorded in SG&A expenses totaled $20,062 ($14,682 of other major-program costs related to the outsourcing and optimization plan in North America and $5,380 of integration-related costs for Tech Pacific). Major-program costs for North America consist primarily of consulting costs, retention and other related costs, while integration costs for Asia-Pacific primarily consist of consulting, asset write-offs and accelerated depreciation associated with facility closures, retention and other costs related to the integration.

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Note 6 Long-Term Debt

The Company s debt consists of the following:

	October 1, 2005	January 1, 2005
Senior subordinated notes	$	$ 213,894
North American revolving trade accounts receivable-backed financing facilities	354,896	
Asia-Pacific revolving trade accounts receivable-backed financing facilities	131,394	132,289
Revolving unsecured credit facilities and other debt	168,985	168,649
	655,275	514,832
Current maturities of long-term debt	(168,985)	(168,649)
	$ 486,290	$ 346,183

In June 2002, the Company entered into a European revolving trade accounts receivable backed-financing facility supported by the trade accounts receivable of a subsidiary in Europe for Euro 107 million, or approximately $129,000, with a financial institution that has an arrangement with a related issuer of third-party commercial paper. On July 1, 2005, the Company extended this facility under the same terms and conditions for another two years. This facility requires certain commitment fees and borrowings under this facility incur financing costs at rates indexed to EURIBOR. At October 1, 2005 and January 1, 2005, the Company had no borrowings under this European revolving trade accounts receivable-backed financing facility.

Effective July 29, 2005, the Company terminated its $150,000 revolving senior unsecured credit facility with a bank syndicate that was scheduled to expire in December 2005. On the same day, the Company entered into a new three-year $175,000 revolving senior unsecured credit facility with a new bank syndicate. The interest rate on the new revolving senior unsecured credit facility is based on LIBOR, plus a predetermined margin that is based on the Company s debt ratings and leverage ratio. The new credit facility can also be used to support letters of credit. At January 1, 2005, the Company had no borrowings outstanding under the former credit facility. The former credit facility was also used to support letters of credit. At October 1, 2005 and January 1, 2005, letters of credit totaling approximately $17,061 and $24,255, respectively, were issued under the former credit facility to certain vendors and financial institutions to support purchases by the Company s subsidiaries, payment of insurance premiums and flooring arrangements. The Company s available capacity under the current agreement is reduced by the amount of any issued and outstanding letters of credit.

On August 16, 2001, the Company sold $200,000 of 9.875% senior subordinated notes due 2008 at an issue price of 99.382%, resulting in net cash proceeds of approximately $195,084, net of issuance costs of approximately $3,680. Interest on the notes is payable semi-annually in arrears on each February 15 and August 15. On the same date, the Company also entered into interest-rate swap agreements with two financial institutions, the effect of which was to swap the fixed-rate obligation on the senior subordinated notes for a floating rate obligation equal to 90-day LIBOR plus 4.260%. At January 1, 2005, the marked-to-market value of the interest-rate swaps amounted to $14,533 and was recorded in other assets with an offsetting adjustment to the hedged debt, bringing the total carrying value of the senior subordinated notes to $213,894 at January 1, 2005.

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On August 15, 2005, the Company redeemed all of its outstanding $200,000 of 9.875% senior subordinated notes due 2008 in accordance with the terms of the Company s indenture. The notes were redeemed at a redemption price of 104.938% of the principal amount of each note, plus accrued but unpaid interest. Concurrently with the redemption of the notes, the Company terminated its position under the interest-rate swap agreements. These actions resulted in an aggregate loss of approximately $8,413 consisting of a loss of $9,876 on the redemption of the senior subordinated notes and $2,612 on the write-off of the remaining unamortized debt issuance and discount costs; partially offset by the gains of $4,075 on the settlement of the interest-rate swap agreements.

Note 7 - Segment Information

The Company operates predominantly in a single industry segment as a distributor of IT products and services. The Company s operating segments are based on geographic location, and the measure of segment profit is income from operations.

Geographic areas in which the Company operates during 2005 include North America (United States and Canada), Europe (Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Italy, The Netherlands, Norway, Spain, Sweden, Switzerland, and the United Kingdom), Asia-Pacific (Australia, The People s Republic of China including Hong Kong, India, Malaysia, New Zealand, Singapore, Sri Lanka, and Thailand), and Latin America (Brazil, Chile, Mexico, and the Company s Latin American export operations in Miami). Intergeographic sales primarily represent intercompany sales that are accounted for based on established sales prices between the related companies and are eliminated in consolidation.

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Financial information by geographic segment is as follows:

	As of and for the Thirteen Weeks Ended		As of and for the Thirty-nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net sales:				
North America Sales to unaffiliated customers	$ 3,086,104	$ 3,051,027	$ 8,943,314	$ 8,635,773
Intergeographic areas	42,008	33,982	122,917	103,301
Europe	2,341,826	2,128,386	7,411,515	6,850,041
Asia-Pacific	1,207,845	569,810	3,592,986	1,755,432
Latin America	323,559	267,166	903,997	767,402
Eliminations of intergeographic areas	(42,008)	(33,982)	(122,917)	(103,301)
Total	$ 6,959,334	$ 6,016,389	$ 20,851,812	$ 18,008,648
Income from operations:				
North America	$ 43,749	$ 39,072	$ 102,548	$ 92,430
Europe	20,970	16,562	86,271	71,887
Asia-Pacific	13,884	1,287	30,887	2,581
Latin America	4,331	3,258	10,756	7,735
Total	$ 82,934	$ 60,179	$ 230,462	$ 174,633
Identifiable assets:				
North America	$ 3,909,332	$ 3,586,525	$ 3,909,332	$ 3,586,525
Europe	1,577,498	1,538,341	1,577,498	1,538,341
Asia-Pacific	655,695	158,383	655,695	158,383
Latin America	283,746	236,558	283,746	236,558
Total	$ 6,426,271	$ 5,519,807	$ 6,426,271	$ 5,519,807
Capital expenditures:				
North America	$ 3,016	$ 6,088	$ 10,658	$ 14,662
Europe	4,211	5,844	9,755	9,260
Asia-Pacific	2,335	610	6,309	1,389
Latin America	173	488	599	912
Total	$ 9,735	$ 13,030	$ 27,321	$ 26,223
Depreciation and amortization:				

North America	$	8,399	$	8,438	$	24,124	$	26,430
Europe		4,084		5,061		11,151		13,338
Asia-Pacific		3,214		704		10,630		2,258
Latin America		643		493		2,015		1,554
Total	$	16,340	$	14,696	$	47,920	$	43,580

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Supplemental information relating to reorganization costs (credits) and other profit enhancement program costs by geographic segment included in income from operations is as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Reorganization costs (credits) (Note 5):				
North America	$ 709	$ (2,585)	$ 6,319	$ (2,493)
Europe	(14)	(67)	(35)	(279)
Asia-Pacific	1,286		4,675	316
Total	$ 1,981	$ (2,652)	$ 10,959	$ (2,456)
Integration and major-program costs charged to SG&A expenses (Note 5):				
North America	$ 4,008	$	$ 14,682	$
Asia-Pacific	1,226		5,380	
Total	$ 5,234	$	$ 20,062	$

Note 8 Commitments and Contingencies

There are various claims, lawsuits and pending actions against the Company incidental to its operations. It is the opinion of management that the ultimate resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

As is customary in the IT distribution industry, the Company has arrangements with certain finance companies that provide inventory-financing facilities for its customers. In conjunction with certain of these arrangements, the Company has agreements with the finance companies that would require it to repurchase certain inventory, which might be repossessed from the customers by the finance companies. Due to various reasons, including among other items, the lack of information regarding the amount of saleable inventory purchased from the Company still on hand with the customer at any point in time, the Company s repurchase obligations relating to inventory cannot be reasonably estimated. Repurchases of inventory by the Company under these arrangements have been insignificant to date.

At January 1, 2005, the Company had tax liabilities of $2,418, $2,407 and $4,283 related to the gains realized on the sales of SOFTBANK Corp., or Softbank, common stock in 2002, 2000, and 1999, respectively. The Softbank common stock was sold in the public market by certain of Ingram Micro s foreign subsidiaries, which are located in a low-tax jurisdiction. At the time of sale, the Company concluded that U.S. taxes were not currently payable on the gains based on its internal assessment and opinions received from its outside advisors. However, in situations involving uncertainties in the interpretation of complex tax regulations by various taxing authorities, the Company provides for tax liabilities unless it considers it probable that taxes will not be due. The level of opinions received from its outside advisors and the Company s internal assessment did not allow the Company to reach that conclusion on this matter. During the thirteen weeks ended July 2, 2005, the Company had settled and paid the tax liabilities of $1,441 and $2,779 associated with the gains realized in 2000 and 1999, respectively, with certain state tax jurisdictions and favorably resolved and reversed tax liabilities of $783 and $1,418 related to tax years in 2000 and

1999, respectively, for such tax jurisdictions. Although the Company reviews its assessments of the remaining tax liability on a regular basis, at October 1, 2005, the Company cannot currently determine when the remaining tax liabilities of $2,687 related to these gains will be finally resolved with the taxing authorities, or if the taxes will ultimately be paid. As a result, the Company continues to provide for these tax liabilities. The Company s federal tax returns for fiscal years through 2000 have been closed. The U.S. Internal Revenue Service is in the process of examining the Company s federal tax returns for fiscal years 2001 to 2003.

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During 2002 and 2003, one of the Company s Latin American subsidiaries was audited by the Brazilian taxing authorities in relation to certain commercial taxes. As a result of this audit, the subsidiary received an assessment of 30.0 million Brazilian reais, including interest and penalties computed through October 1, 2005, or approximately $13,500 at October 1, 2005, alleging these commercial taxes were not properly remitted for the period January through September 2002. The Brazilian taxing authorities may make similar claims for periods subsequent to September 2002. Additional assessments, if received, may be significant either individually or in the aggregate. It is management s opinion, based upon the opinions of outside legal counsel, that the Company has valid defenses related to this matter. Although the Company is vigorously pursuing administrative and judicial action to challenge the assessment, no assurance can be given as to the ultimate outcome. An unfavorable resolution of this matter is not expected to have a material impact on the Company s financial condition, but depending upon the time period and amounts involved it may have a material negative effect on the Company s results of operations or cash flows.

The Company received an informal inquiry from the SEC during the third quarter of 2004. The SEC s focus to date has been related to certain transactions with McAfee, Inc. (formerly Network Associates, Inc. or NAI) from 1998 through 2000. The Company also received subpoenas from the U.S. Attorney s office for the Northern District of California (Department of Justice) in connection with its grand jury investigation of NAI, which seek information concerning these transactions. The Company continues to cooperate fully with the SEC and the Department of Justice in their inquiries. The Company is engaged in discussions with the SEC toward a possible resolution of matters concerning these NAI-related transactions. The Company cannot predict with certainty the outcome of these discussions, nor can it reasonably estimate the amount of any loss or range of loss that might be incurred as a result of the resolution of these matters with the SEC and the Department of Justice. Such amounts may be material to the Company s results of operations or cash flows.

Note 9 New Accounting Standards

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or FAS 123R, which was later amended in April 2005. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, Share-Based Payment, which further explains FAS 123R. FAS 123R revises Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, or FAS 123, and supersedes Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees and related interpretations and Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. FAS 123R as amended requires compensation cost relating to all share-based payments to employees to be recognized in the financial statements based on their fair values and is effective for the Company s fiscal years beginning January 1, 2006. The pro forma disclosures previously permitted under FAS 123 will no longer be an alternative to financial statement recognition. The Company has not finally determined the method of adoption and it has not determined whether the adoption on January 1, 2006 will result in amounts that are similar to the current pro forma disclosures under FAS 123.

FASB Staff Position No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004, provides guidance with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (AJCA) on income tax expense and deferred tax liabilities. The AJCA was signed into law in October 2004 and allows the Company to repatriate up to $500,000 of permanently reinvested foreign earnings in 2005 at an effective tax rate of 5.25%. The Company has not determined whether it will take advantage of this new provision of the AJCA.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion includes forward-looking statements, including but not limited to, management s expectations for competition; revenues, margin, expenses and other operating results or ratios; operating efficiencies; economic conditions; major-program or integration costs and related savings; effective income tax rates; capital expenditures; liquidity; capital requirements, acquisitions, operating models and exchange rate fluctuations. In evaluating our business, readers should carefully consider the important factors discussed in Cautionary Statements for the Purpose of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995 below. In addition, this Management s Discussion and Analysis, or MD&A, should be read in conjunction with the MD&A and related information included in our Annual Report on Form 10-K and in Exhibit 99.01 to our Annual Report on Form 10-K for the fiscal year ended January 1, 2005, as filed with the Securities and Exchange Commission, or SEC. We disclaim any duty to update any forward-looking statements.

Overview of Our Business

We are the largest distributor of information technology, or IT, products and supply chain solutions worldwide based on revenues. We offer a broad range of IT products and services and help generate demand and create efficiencies for our customers and suppliers around the world. The IT distribution industry in which we operate is characterized by narrow gross profit as a percentage of net sales, or gross margin, and narrow income from operations as a percentage of net sales, or operating margin. Historically, our margins have been impacted by pressures from price competition, as well as changes in vendor terms and conditions, including, but not limited to, variations in vendor rebates and incentives, our ability to return inventory to vendors, and time periods qualifying for price protection. We expect these competitive pricing pressures and restrictive vendor terms and conditions to continue in the foreseeable future. To mitigate these factors, we have implemented changes to and continue to refine our pricing strategies, inventory management processes and vendor program processes. In addition, we continuously monitor and change, as appropriate, certain terms and conditions offered to our customers to reflect those being imposed by our vendors. Our business also requires significant levels of working capital primarily to finance accounts receivable. We have historically relied on, and continue to rely heavily on, available cash, debt and trade credit from vendors for our working capital needs.

In November 2004, we acquired all of the outstanding shares of Techpac Holdings Limited, or Tech Pacific, one of Asia-Pacific s largest technology distributors, for cash and the assumption of debt. This acquisition provides us with a strong management and employee base, a history of solid operating margins and profitability, and a strong presence in the growing Asia-Pacific region. We continue to integrate the operations of our pre-existing Asia-Pacific business with Tech Pacific and expect this to be substantially completed by the end of the 2005. We expect aggregate integration expenses of approximately $15 million for workforce reductions, closure of redundant facilities, relocation and other integration actions related to this acquisition, which will be substantially recognized through the end of 2005. The Company has recognized integration expenses of $2.5 million ($1.3 million in reorganization costs and $1.2 million charged to selling, general and administrative expenses or SG&A expenses) and $10.1 million ($4.7 million in reorganization costs and $5.4 million charged to selling, general and administrative expenses or SG&A expenses), in the third quarter of 2005 and the first nine months of 2005, respectively (see Note 5 to consolidated financial statements).

In April 2005, we announced an outsourcing and optimization plan that we expect to improve operating efficiencies by realigning and consolidating certain business functions within the North America region. A key component of the plan is an outsourcing arrangement that moves transaction-oriented service and support functions including certain North America positions in finance and shared services, customer service, vendor management and certain U.S. positions in technical support and inside sales (excluding field sales and management positions) to a leading global business process outsource provider. We expect the outsourcing transition to be substantially complete by the end of 2005. As part of the plan, we have also restructured and consolidated other job functions

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Management s Discussion and Analysis Continued

within the North American region. We expect savings generated by the plan to be approximately $10 million in 2005, starting in the second quarter and ramping up to an annualized savings of $25 million by the first quarter of 2006. Total costs of the actions, or major-program costs, are estimated at approximately $26 million. Approximately $4.7 million ($0.7 million of reorganization costs and $4.0 million of other major-program costs, charged to SG&A expenses) and $21.0 million ($6.3 million of reorganization costs and $14.7 million of other major-program costs charged to SG&A expenses) were incurred in the third quarter of 2005 and first nine months of 2005, respectively, with the remainder to be incurred by the fourth quarter of 2005 (see Note 5 to consolidated financial statements).

In July 2005, we acquired certain net assets of AVAD, the leading distributor of home technology integration solutions for custom installers in the U.S. AVAD was acquired for an initial purchase price of $136 million, subject to a final determination of net asset value. The purchase agreement also requires us to pay the seller earn-out payments of up to $80 million over the next three years if certain performance levels are achieved, and additional payments of up to $100 million are possible in 2010, if extraordinary performance levels are achieved over a five-year period. This transaction was funded through our existing borrowing capacity and cash.

Results of Operations

The following tables set forth our net sales by geographic region (excluding intercompany sales) and the percentage of total net sales represented thereby, as well as operating income and operating margin by geographic region for each of the thirteen and thirty-nine weeks indicated (in millions).

	Thirteen Weeks Ended				Thirty-nine Weeks Ended			
	October 1, 2005		October 2, 2004		October 1, 2005		October 2, 2004	
Net sales by geographic region:								
North America	$ 3,086	44.3%	$ 3,051	50.7%	$ 8,943	42.9%	$ 8,636	48.0%
Europe	2,342	33.7	2,128	35.4	7,412	35.6	6,850	38.0
Asia-Pacific	1,208	17.4	570	9.5	3,593	17.2	1,756	9.7
Latin America	323	4.6	267	4.4	904	4.3	767	4.3