INGRAM MICRO INC
Form 10-Q
November 08, 2004

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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 2, 2004

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

The Registrant had 155,849,733 shares of Class A Common Stock, par value $0.01 per share, outstanding at October 2, 2004.

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)

	October 2, 2004	January 3, 2004
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 824,858	$ 279,587
Accounts receivable:		
Trade receivables	2,296,728	1,955,979
Retained interest in securitized receivables		499,923
Total accounts receivable (less allowances of $88,550 and $91,613)	2,296,728	2,455,902
Inventories	1,553,665	1,915,403
Other current assets	333,831	317,201
Total current assets	5,009,082	4,968,093
Property and equipment, net	188,696	210,722
Goodwill	245,393	244,174
Other	76,636	51,173
Total assets	$ 5,519,807	$ 5,474,162
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,655,407	$ 2,821,518
Accrued expenses	461,068	390,244
Current maturities of long-term debt	105,399	128,346
Total current liabilities	3,221,874	3,340,108
Long-term debt, less current maturities	211,388	239,909
Other liabilities	25,274	21,196

Total liabilities	3,458,536	3,601,213
Commitments and contingencies (Note 9)		
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; 155,849,733 and 151,963,667 shares issued and outstanding	1,558	1,520
Class B Common Stock, $0.01 par value, 135,000,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	775,038	720,810
Retained earnings	1,242,657	1,101,954
Accumulated other comprehensive income	42,164	48,812
Unearned compensation	(146)	(147)
Total stockholders equity	2,061,271	1,872,949
Total liabilities and stockholders equity	$ 5,519,807	$ 5,474,162

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 2, 2004	September 27, 2003	October 2, 2004	September 27, 2003
Net sales	$ 6,016,389	$ 5,207,450	$ 18,008,648	$ 15,852,299
Cost of sales	5,686,798	4,924,907	17,026,129	14,992,129
Gross profit	329,591	282,543	982,519	860,170
Operating expenses:				
Selling, general and administrative	272,064	260,287	810,342	770,270
Reorganization costs	(2,652)	1,490	(2,456)	14,721
	269,412	261,777	807,886	784,991
Income from operations	60,179	20,766	174,633	75,179
Other expense (income):				
Interest income	(2,255)	(2,110)	(5,963)	(7,744)
Interest expense	8,370	6,128	26,576	22,195
Losses on sales of receivables	665	1,410	3,613	8,095
Net foreign currency exchange loss (gain)	(3,066)	239	(728)	2,614
Other	1,609	712	3,009	2,442
	5,323	6,379	26,507	27,602
Income before income taxes	54,856	14,387	148,126	47,577
Provision for (benefit from) income taxes	(22,424)	(66,852)	7,423	(55,236)

Net income	$ 77,280	$ 81,239	$ 140,703	$ 102,813
Basic earnings per share	$ 0.50	$ 0.54	$ 0.91	$ 0.68
Diluted earnings per share	$ 0.49	$ 0.53	$ 0.89	$ 0.68

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Dollars in 000 s)
(Unaudited)

	Thirty-nine Weeks Ended	
	October 2, 2004	**September 27, 2003**
Cash flows from operating activities:		
Net income	$ 140,703	$ 102,813
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	43,580	62,164
Noncash gain on forward currency exchange contract	(4,277)	
Noncash net gain on disposals of property and equipment		(1,613)
Noncash charges for interest and compensation	2,733	2,549
Deferred income taxes	(28,264)	(47,829)
Loss on sale of a business		5,067
Changes in operating assets and liabilities, net of effects of acquisitions:		
Changes in amounts sold under accounts receivable programs	(60,000)	(5,000)
Accounts receivable	225,755	394,187
Inventories	371,510	140,743
Other current assets	(19,739)	4,199
Accounts payable	(103,041)	(301,693)
Accrued expenses	72,899	(191,335)
Cash provided by operating activities	641,859	164,252
Cash flows from investing activities:		
Purchases of property and equipment	(26,223)	(25,044)
Proceeds from sale of property and equipment		7,826
Acquisitions, net of cash acquired	(9,683)	(9,416)
Other	1,110	3,547
Cash used by investing activities	(34,796)	(23,087)
Cash flows from financing activities:		
Proceeds from exercise of stock options	47,121	5,474
Change in book overdrafts	(72,815)	(19,971)
Net proceeds from (repayment of) debt	(41,777)	4,771

Cash used by financing activities	(67,471)	(9,726)
Effect of exchange rate changes on cash and cash equivalents	5,679	4,229
Increase in cash and cash equivalents	545,271	135,668
Cash and cash equivalents, beginning of period	279,587	387,513
Cash and cash equivalents, end of period	$ 824,858	$ 523,181

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 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 2, 2004, and its results of operations for the thirteen and thirty-nine weeks ended October 2, 2004 and September 27, 2003, and cash flows for the thirty-nine weeks ended October 2, 2004 and September 27, 2003. 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 3, 2004. The results of operations for the thirteen and thirty-nine weeks ended October 2, 2004 may not be indicative of the results of operations that can be expected for the full year. Certain prior year amounts have been reclassified to conform to the current year presentation.

Due to the significance of the Company s Asia-Pacific region s net sales in 2003, the Company began reporting its Asia-Pacific and Latin America operations as separate segments in the Company s 2003 Annual Report on Form 10-K. Previously, the Asia-Pacific and Latin America regions were combined and reported as its Other International segment. Prior year amounts have been disclosed to conform to the current segment reporting structure.

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 2,	September 27,	October 2,	September 27,

	2004	2003	2004	2003
Net income	$ 77,280	$ 81,239	$ 140,703	$ 102,813
Weighted average shares	155,638,665	151,225,624	154,821,559	151,049,516
Basic earnings per share	$ 0.50	$ 0.54	$ 0.91	$ 0.68
Weighted average shares, including the dilutive effect of stock options and warrants (2,571,948 and 2,232,810 for the thirteen weeks ended October 2, 2004 and September 27, 2003, respectively, and 3,689,348 and 533,380 for the thirty-nine weeks ended October 2, 2004 and September 27, 2003, respectively)	158,210,613	153,458,434	158,510,907	151,582,896
Diluted earnings per share	$ 0.49	$ 0.53	$ 0.89	$ 0.68

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INGRAM MICRO INC.

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

There were approximately 14,012,000 and 17,620,000 stock options for the thirteen weeks ended October 2, 2004 and September 27, 2003, respectively, and 13,535,000 and 24,153,000 stock options for the thirty-nine weeks ended October 2, 2004 and September 27, 2003, 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 2, 2004	September 27, 2003	October 2, 2004	September 27, 2003
Net income, as reported	$ 77,280	$ 81,239	$ 140,703	$ 102,813
Compensation expense as determined under FAS 123, net of related tax effects	5,512	7,006	17,762	21,027
Pro forma net income	$ 71,768	$ 74,233	$ 122,941	$ 81,786
Earnings per share:				
Basic as reported	$ 0.50	$ 0.54	$ 0.91	$ 0.68
Basic pro forma	$ 0.46	$ 0.49	$ 0.79	$ 0.54
Diluted as reported	$ 0.49	$ 0.53	$ 0.89	$ 0.68

Diluted pro forma	$ 0.46	$ 0.49	$ 0.78	$ 0.54

The weighted average fair value per option granted was $4.89 and $3.68 for the thirteen weeks ended October 2, 2004 and September 27, 2003, respectively, and $4.78 and $3.92, for the thirty-nine weeks ended October 2, 2004 and September 27, 2003, 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 2, 2004	**September 27, 2003**	**October 2, 2004**	**September 27, 2003**
Risk-free interest rate	2.92%	1.67%	2.71%	1.89%
Expected years until exercise	3.0 years	3.0 years	3.0 years	3.0 years
Expected stock volatility	43.6%	46.9%	41.8%	49.5%

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 000 s, except per share data)
(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 was 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 2, 2004 and September 27, 2003 as summarized below:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2004	September 27, 2003	October 2, 2004	September 27, 2003
Net income	$ 77,280	$ 81,239	$ 140,703	$ 102,813
Changes in foreign currency translation adjustments	14,593	1,348	(6,648)	36,236
Comprehensive income	$ 91,873	$ 82,587	$ 134,055	$ 139,049

Accumulated other comprehensive income included in stockholders equity totaled $42,164 and $48,812 at October 2, 2004 and January 3, 2004, respectively, and consisted solely of foreign currency translation adjustments.

Note 4 Goodwill

The changes in the carrying amount of goodwill for the thirty-nine weeks ended October 2, 2004 and September 27, 2003 are as follows:

	North America	Europe	Asia-Pacific	Latin America	Total
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
Balance at December 28, 2002	$ 78,310	$ 2,111	$ 153,501	$	$ 233,922
Acquisitions		4,552	2,017		6,569
Foreign currency translation	99	1,327	263		1,689
Balance at September 27, 2003	$ 78,409	$ 7,990	$ 155,781	$	$ 242,180

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 on July 30, 2004 and $1,500 payable on or before October 31, 2006, was allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date, resulting in the recording of $426 of goodwill and $1,103 of other amortizable intangible assets. In addition to the cash payment, 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.

In October 2002, the Company acquired an IT distributor in Belgium. In addition to the initial cash payment, the purchase agreement requires the Company to pay the seller up to Euro 1.13 million for each of the next three years based on an earn-out formula. The addition to goodwill of $1,078 for the thirty-nine weeks ended October 2, 2004 represents the amount paid to the seller for the first year s achievement of the earn-out.

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 000 s, except per share data)
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In April 2003, the Company increased its ownership in an India-based subsidiary by acquiring approximately 37% of the subsidiary held by minority shareholders. The total purchase price for this acquisition consisted of a cash payment of $3,145, resulting in the recording of approximately $2,017 of goodwill.

In February 2003, the Company increased its ownership in Ingram Macrotron AG, a German-based distribution company, by acquiring the remaining interest of approximately 3% held by minority shareholders. The purchase price of this acquisition consisted of a cash payment of $6,271, resulting in the recording of $4,552 of goodwill. Court actions have been filed by several minority shareholders contesting the adequacy of the purchase price paid for the shares and various other actions, which could affect the purchase price. Depending upon the outcome of these actions, additional payments for such shares may be required.

Note 5 Reorganization and Profit Enhancement Program Costs

In September 2002, the Company announced a comprehensive profit enhancement program, which was designed to improve operating income through enhancements in gross margins and reduction of selling, general and administrative expenses, or SG&A expenses. Key components of these 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. In addition, the Company has implemented other actions outside the scope of the comprehensive profit enhancement program, which are designed to further improve operating results. The implementation of the actions associated with the comprehensive profit enhancement program and other actions taken resulted in restructuring costs and other major-program costs, which are more fully described below.

The Company has realized significant benefits from the reduction in certain SG&A expenses and gross margin improvements as a result of its comprehensive profit enhancement program, which was completed in December 2003. This program delivered approximately $176,000 in annualized operating income improvements, exceeding the Company s original expectation of $160,000 and maintained its major-program costs within the Company s original estimate of $140,000, when it announced the program in September 2002.

Reorganization Costs

The Company has developed and implemented detailed plans for restructuring actions in connection with the comprehensive profit enhancement program and other actions it has taken. The following table summarizes the components of the Company s reorganization costs by region for each of the quarters in the nine months ended October 2, 2004, and for each of the quarters in the year ended January 3, 2004 resulting from the detailed actions initiated:

Quarter ended	Headcount Reduction	Employee Termination Benefits	Facility Costs	Other Costs	Total Cost
October 2, 2004					

North America		$	$ (2,585)	$	$ (2,585)
Europe			(67)		(67)
Asia-Pacific					
Latin America					
Subtotal			(2,652)		(2,652)
July 3, 2004					
North America		(40)	323		283
Europe		(59)	(153)		(212)
Asia-Pacific					
Latin America					
Subtotal		(99)	170		71

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INGRAM MICRO INC.

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

Quarter ended	Headcount Reduction	Employee Termination Benefits	Facility Costs	Other Costs	Total Cost
April 3, 2004					
North America		(94)	(97)		(191)
Europe					
Asia-Pacific	30	316			316
Latin America					
Subtotal	30	222	(97)		125
Thirty-nine weeks ended October 2, 2004	30	$ 123	$ (2,579)	$	$ (2,456)
January 3, 2004					
North America	135	$ 773	$ 3,287	$	$ 4,060
Europe	60	1,285	694		1,979
Asia-Pacific	10	41			41
Latin America	90	631	125	13	769
Subtotal	295	2,730	4,106	13	6,849
September 27, 2003					
North America	20	422	253		675
Europe	45	591	158	(24)	725
Asia-Pacific	5	20			20
Latin America	45	70			70
Subtotal	115	1,103	411	(24)	1,490
June 28, 2003					
North America	245	1,658	(242)	48	1,464
Europe		(82)	141	(293)	(234)

Asia-Pacific		1			1
Latin America	20	61			61
Subtotal	265	1,638	(101)	(245)	1,292
March 29, 2003					
North America	280	3,564		1,471	5,035
Europe	60	864	5,787	81	6,732
Asia-Pacific	10	12			12
Latin America	15	160			160
Subtotal	365	4,600	5,787	1,552	11,939
Full year 2003	1,040	$ 10,071	$ 10,203	$ 1,296	$ 21,570

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in 000 s, except per share data)
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The credit to reorganization costs of $2,652 for the third quarter of 2004 represents lower than expected costs associated with facility consolidations ($503 and $2,082 related to actions taken in the second quarter of 2003 and the fourth quarter of 2002 in North America, respectively; and credits of $67 related to actions taken in the fourth quarter of 2001 for Europe).

The reorganization charge of $71 for the second quarter of 2004 included net charges of $170 for higher than expected costs associated with facility consolidations ($63 and $260 related to actions taken in the third quarter of 2002 and second quarter of 2001 in North America, respectively; partially offset by credits of $153 related to actions taken in the fourth quarter of 2003 for Europe) and credits of $40 and $59 related to actions taken in the third and fourth quarters of 2003 for lower than expected costs associated with employee termination benefits in North America and Europe, respectively.

The reorganization charge of $125 for the first quarter of 2004 included $316 related to detailed actions taken during the quarter, partially offset by credits of $8 and $86 related to detailed actions taken in the second and fourth quarters of 2003 for lower than anticipated costs associated with employee termination benefits in North America and a credit of $97 related to actions taken in third quarter of 2002 for lower than expected costs associated with facility consolidations in North America.

Quarter ended April 3, 2004

Reorganization costs for the first quarter of 2004 were primarily comprised of employee termination benefits for workforce reductions of approximately 30 associates in Asia-Pacific. These termination benefits were fully paid during 2004.

Quarter ended January 3, 2004

Reorganization costs for the fourth quarter of 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.

The payment activities and adjustments for the thirty-nine weeks ended October 2, 2004 and the remaining liability at October 2, 2004 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 3, 2004	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 2, 2004
Employee termination benefits	$ 889	$ 741	$ (145)	$ 3

Facility costs	1,816	127	(153)	1,536
Total	$ 2,705	$ 868	$ (298)	$ 1,539

The adjustments reflect credits of $86 in North America and $59 in Europe recorded in the first quarter of 2004 and in the second quarter of 2004, respectively, for lower than expected costs of employee termination benefits and a credit of $153 in Europe recorded in the second quarter of 2004 for lower lease exit costs for facility consolidations.

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INGRAM MICRO INC.

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Quarter ended September 27, 2003

Reorganization costs for the third quarter of 2003 were primarily comprised of employee termination benefits for workforce reductions worldwide and, to a lesser extent, lease exit costs for facility consolidations in Europe.

The payment activities and adjustments for the thirty-nine weeks ended October 2, 2004 and the remaining liability at October 2, 2004 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 3, 2004	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 2, 2004
Employee termination benefits	$ 41	$ 1	$ (40)	$

The adjustment reflects lower costs of termination benefits in North America totaling $40 in the second quarter of 2004.

Quarter ended June 28, 2003

Reorganization costs for the second quarter of 2003 were primarily comprised of employee termination benefits for workforce reductions in North America and lease exit costs for facility consolidations in the Company s North American headquarters in Santa Ana, California. These restructuring actions are complete; however, future cash outlays will be required primarily due to future lease payments related to exited facilities.

The payment activities and adjustments for the thirty-nine weeks ended October 2, 2004 and the remaining liability at October 2, 2004 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 3, 2004	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 2, 2004

Employee termination benefits	$ 20	$ 12	$ (8)	$
Facility costs	880	377	(503)	
Other costs	48	48		
Total	$ 948	$ 437	$ (511)	$

The adjustments reflect lower costs of employee termination benefits totaling $8 recorded in the first quarter of 2004 and lower than expected costs associated with facility consolidations totaling $503 recorded in the third quarter of 2004 in North America.

Quarter ended March 29, 2003

Reorganization costs for the first quarter of 2003 were primarily comprised of employee termination benefits for workforce reductions worldwide; facility exit costs, principally comprised of lease exit costs associated with the downsizing of an office facility and exit of a warehouse in Europe; and other costs, primarily comprised of contract termination expenses associated with outsourcing certain IT infrastructure functions. 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.

The payment activities and adjustments for the thirty-nine weeks ended October 2, 2004 and the remaining liability at October 2, 2004 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 3, 2004	**Amounts Paid and Charged Against the Liability**	**Adjustments**	**Remaining Liability at October 2, 2004**
Employee termination benefits	$ 630	$ 473	$	$ 157
Facility costs	2,102	821		1,281
Other costs	529	529		
Total	$ 3,261	$ 1,823	$	$ 1,438

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INGRAM MICRO INC.

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(Unaudited)

Quarter ended December 28, 2002

Reorganization costs for the fourth quarter of 2002 were primarily comprised of employee termination benefits for workforce reductions primarily in North America and Europe; facility exit costs primarily comprised of lease exit costs for the downsizing of the Williamsville, New York office facility, and consolidating the Mississauga, Canada office facility; 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 complete; however, future cash outlays will be required due to severance payment terms and future lease payments related to exited facilities.

The payment activities and adjustments for the thirty-nine weeks ended October 2, 2004 and the remaining liability at October 2, 2004 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 3, 2004	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 2, 2004
Employee termination benefits	$ 265	$ 202	$	$ 63
Facility costs	10,300	2,132	(2,082)	6,086
Total	$ 10,565	$ 2,334	$ (2,082)	$ 6,149

The adjustment reflects lower than expected costs associated with facility consolidations totaling $2,082 recorded in the third quarter of 2004 in North America.

Quarter ended September 28, 2002

Reorganization costs for the third quarter of 2002 were primarily comprised of employee termination benefits for workforce reductions worldwide; facility exit costs primarily comprised of lease exit costs for the closure of the Memphis, Tennessee configuration center and Harrisburg, Pennsylvania returns center, downsizing the Carol Stream, Illinois and Jonestown, Pennsylvania distribution centers, closing the European assembly facility and the consolidation of operations in Australia; and other costs associated with the reorganization activities. These restructuring actions are complete; however, future cash outlays will be required due to future lease payments related to exited facilities.

The payment activities and adjustments for the thirty-nine weeks ended October 2, 2004 and the remaining liability at October 2, 2004 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 3, 2004	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 2, 2004
Facility costs	$ 6,386	$ 2,536	$ (34)	$ 3,816

The adjustment reflects lower than expected lease obligations associated with the closure of the Harrisburg, Pennsylvania returns center totaling $97 recorded in the first quarter of 2004; partially offset by higher than expected lease obligations associated with the closure of the Memphis, Tennessee configuration center totaling $63 recorded in the second quarter of 2004.

Actions prior to June 30, 2002

Prior to June 30, 2002, detailed actions under the Company s reorganization plan included workforce reductions and facility consolidations worldwide. Facility consolidations primarily included consolidation of the Company s North American headquarters in Santa Ana, California, closing the Newark and Fullerton, California distribution centers, downsizing the Miami, Florida distribution center, closing the returns processing centers in Santa Ana and Rancho Cucamonga, California, centralizing returns in the Harrisburg, Pennsylvania returns center, and consolidation and/or exit of warehouse and office facilities in Europe, Latin America and Asia-Pacific. These restructuring actions are completed; however, future cash outlays will be required due to severance payment terms and future lease payments related to exited facilities.

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The payment activities and adjustments for the thirty-nine weeks ended October 2, 2004 and the remaining liability at October 2, 2004 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 3, 2004	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at October 2, 2004
Employee termination benefits	$ 232	$ 53	$	$ 179
Facility costs and other	1,443	1,219	193	417
Total	$ 1,675	$ 1,272	$ 193	$ 596

The adjustment reflects higher than expected lease obligations associated with the closure of the Fullerton, California distribution center totaling $260 recorded in the second quarter of 2004 and lower than expected costs associated with facility consolidations totaling $67 recorded in the third quarter of 2004 in Europe.

Other Profit Enhancement Program Implementation Costs

For the thirteen weeks ended September 27, 2003, net other costs recorded in SG&A expenses related to the implementation of the Company s profit enhancement initiatives announced September 18, 2002 totaled $2,556, comprised of $3,589 in incremental accelerated depreciation of fixed assets associated with software replaced by a more efficient solution, the planned exit of facilities and the outsourcing of certain IT infrastructure functions in North America; and $1,904 in retention and other transition costs associated with the relocation of major functions and outsourcing of certain IT infrastructure functions in North America; partially offset by a gain of $2,937 on the sale of excess land near the Company s corporate headquarters in Southern California.

For the thirty-nine weeks ended September 27, 2003, other costs recorded in SG&A expenses related to the implementation of the Company s profit enhancement initiatives totaled $21,537, of which $15,573 related to actions contemplated under the original profit enhancement program announced September 18, 2002 and $5,964 related to new profit improvement opportunities primarily consisting of the sale of the non-core German semiconductor equipment distribution business and further consolidation of the Company s operations in the Nordic areas of Europe. The $21,537 in other major-program costs was comprised of $10,984 of incremental accelerated depreciation ($10,077 in North America and $907 in Europe) of fixed assets associated with software replaced by a more efficient solution, the planned exit of facilities and the outsourcing of certain IT infrastructure functions in North America; $8,433 in recruiting, retention, training and other transition costs associated with the relocation of major functions and outsourcing of certain IT infrastructure functions in North America; and $5,057 related to a loss on the sale of a non-core German semiconductor equipment distribution business; partially offset by a gain of $2,937 on the sale of excess land near the Company s corporate headquarters in Southern California. In addition, for the thirty-nine weeks ended September 27, 2003, other major-program costs of $443 were recorded in cost of sales, primarily comprised of incremental inventory losses caused by the decision to further consolidate Nordic areas in Europe.

Note 6 Accounts Receivable

The Company has trade accounts receivable-based facilities in Europe, which provide up to approximately $211,000 of additional financing capacity, depending upon the level of trade accounts receivable eligible to be transferred or sold. At October 2, 2004 and January 3, 2004, there were no trade accounts receivable sold to and held by third parties under the European program.

Effective July 29, 2004, the Company terminated its $700,000 revolving accounts receivable securitization program in the U.S., which was scheduled to expire in March 2005. On the same day, the Company entered into a new revolving accounts receivable-based financing program, which provides for up to $500,000 in borrowing capacity secured by substantially all U.S. based receivables (see Note 7 to the consolidated financial statements for a detailed discussion of the new program). In connection with the former program, most of the Company s U.S. trade accounts receivable were transferred without recourse to a trust in exchange for a beneficial interest in the total pool of trade receivables. Sales of undivided interests to third parties under this program resulted in a reduction of total accounts receivable in the Company s consolidated balance sheet. The excess of the trade accounts receivable transferred over amounts sold to and held by third parties at any one point in time represented the Company s retained interest in the transferred accounts receivable and is shown in the Company s consolidated balance sheet as a separate caption under accounts receivable. Retained interests were carried at their fair value, estimated as the net

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realizable value, which considered the relatively short liquidation period and included an estimated provision for credit losses. At January 3, 2004, the amount of undivided interests sold to and held by third parties under the former securitization program totaled $60,000.

On July 26, 2004, the Company amended its existing accounts receivable-based facility in Canada of 150 million Canadian dollars (originally scheduled to expire in August 2004) and extended the maturity to August 31, 2008 (see Note 7 to the consolidated financial statements for a detailed discussion of this new facility). At January 3, 2004, there were no trade accounts receivable sold to and held by third parties under the former program.

The Company is required to comply with certain financial covenants under some of its financing facilities, including minimum tangible net worth, restrictions on funded debt, interest coverage and trade accounts receivable portfolio performance covenants. The Company is also restricted in the amount of dividends it can pay as well as the amount of common stock that it can repurchase annually. At October 2, 2004, the Company was in compliance with all covenants or other requirements set forth in its accounts receivable financing programs discussed above.

Losses in the amount of $665 and $1,410 for the thirteen weeks ended October 2, 2004 and September 27, 2003, respectively, and $3,613 and $8,095 for the thirty-nine weeks ended October 2, 2004 and September 27, 2003, respectively, related to the sale of trade accounts receivable under these facilities, or off-balance sheet debt, are included in other expenses in the Company s consolidated statement of income.

Note 7 Long-Term Debt

The Company s debt consists of the following:

	October 2, 2004	January 3, 2004
Revolving unsecured credit facilities and other debt	$ 105,399	$ 128,346
European revolving trade accounts receivable-backed financing facilities		20,207
Senior subordinated notes	211,388	219,702
	316,787	368,255
Current maturities of long-term debt	(105,399)	(128,346)
	$ 211,388	$ 239,909

On July 29, 2004, the Company entered into a new revolving accounts receivable-based financing program in the

U.S., which provides for up to $500,000 in borrowing capacity secured by substantially all U.S.-based receivables. This financing program replaced the Company s revolving accounts receivable securitization program or off-balance sheet debt (see Note 6 to the consolidated financial statements for a discussion of the former program). At the option of the Company, the program may be increased to as much as $600,000 at any time prior to July 29, 2006. This new facility expires on March 31, 2008. Based on the terms and conditions of the new program structure, borrowings under the program are accounted for as a financing facility, or on-balance sheet debt. At October 2, 2004, there were no borrowings under this new facility.

On July 26, 2004, the Company amended its current trade accounts receivable program in Canada, which provides for borrowing capacity up to 150 million Canadian dollars, or approximately $119,000 (see Note 6 to the consolidated financial statements for a discussion of the former off-balance sheet debt). Pursuant to the amendment, the Company extended the program maturity to August 31, 2008, on substantially similar terms and conditions that existed prior to such amendment. However, under the new program, the Company obtained certain rights to repurchase transferred receivables. Based on the terms and conditions of the new program structure, borrowings under the program are accounted for as on-balance sheet debt. At October 2, 2004, there were no borrowings under this amended facility.

Note 8 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. Due to the significance of the Company s Asia-Pacific region s net sales, the Company is now reporting Asia-Pacific and Latin America as separate segments. Previously, the Asia-Pacific and Latin America

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regions were combined and reported as the Company s Other International segment. Prior year amounts have been disclosed to conform to the current segment reporting structure.

Geographic areas in which the Company operated during 2004 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, 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.

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 2, 2004	September 27, 2003	October 2, 2004	September 27, 2003
Net sales:				
North America Sales to unaffiliated customers	$ 3,051,027	$ 2,559,319	$ 8,635,773	$ 7,884,902
Intergeographic areas	33,982	33,023	103,301	91,625
Europe	2,128,386	1,789,766	6,850,041	5,500,405
Asia-Pacific	569,810	600,599	1,755,432	1,720,496
Latin America	267,166	257,766	767,402	746,496
Eliminations of intergeographic areas	(33,982)	(33,023)	(103,301)	(91,625)
Total	$ 6,016,389	$ 5,207,450	$ 18,008,648	$ 15,852,299
Income from operations:				
North America	$ 39,072	$ 14,056	$ 92,430	$ 48,795
Europe	16,562	10,094	71,887	28,490
Asia-Pacific	1,287	(2,785)	2,581	(2,478)
Latin America	3,258	(599)	7,735	372
Total	$ 60,179	$ 20,766	$ 174,633	$ 75,179

Identifiable assets:				
North America	$ 3,586,525	$ 3,200,628	$ 3,586,525	$ 3,200,628
Europe	1,538,341	1,252,383	1,538,341	1,252,383
Asia-Pacific	158,383	212,700	158,383	212,700
Latin America	236,558	201,710	236,558	201,710
Total	$ 5,519,807	$ 4,867,421	$ 5,519,807	$ 4,867,421
Capital expenditures:				
North America	$ 6,088	$ 5,380	$ 14,662	$ 17,361
Europe	5,844	571	9,260	4,087
Asia-Pacific	610	604	1,389	1,467
Latin America	488	551	912	2,129
Total	$ 13,030	$ 7,106	$ 26,223	$ 25,044

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	As of and for the Thirteen Weeks Ended		As of and for the Thirty-nine Weeks Ended	
	October 2, 2004	September 27, 2003	October 2, 2004	September 27, 2003
Depreciation:				
North America	$ 8,438	$ 14,088	$ 26,430	$ 44,674
Europe	5,061	4,028	13,338	13,306
Asia-Pacific	704	779	2,258	2,376
Latin America	493	557	1,554	1,808
Total	$ 14,696			