

INGRAM MICRO INC
Form 10-Q
October 30, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 3, 2015

OR

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

For the transition period from _____ to _____

Commission file number: 1-12203

Ingram Micro Inc.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

62-1644402
(I.R.S. Employer Identification No.)

3351 Michelson Drive, Suite 100
Irvine, California 92612-0697
(Address, including zip code, of principal executive offices)
(714) 566-1000
(Registrant's telephone number, including area code)

1600 E. St. Andrew Place, Santa Ana, California 92705-4926
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant had submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

Edgar Filing: INGRAM MICRO INC - Form 10-Q

The Registrant had 149,688,793 shares of Class A Common Stock, par value \$0.01 per share, outstanding at October 3, 2015.

Table of Contents

INGRAM MICRO INC.

INDEX

Part I.	Financial Information	
		Pages
Item 1.	Financial Statements (Unaudited)	
	Consolidated Balance Sheet at October 3, 2015 and January 3, 2015	<u>3</u>
	Consolidated Statement of Income for the thirteen and thirty-nine weeks ended October 3, 2015 and September 27, 2014	<u>4</u>
	Consolidated Statement of Comprehensive Income (Loss) for the thirteen and thirty-nine weeks ended October 3, 2015 and September 27, 2014	<u>5</u>
	Consolidated Statement of Cash Flows for the thirty-nine weeks ended October 3, 2015 and September 27, 2014	<u>6</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
Item 4.	<u>Controls and Procedures</u>	<u>33</u>
Part II.	Other Information	
Item 1.	<u>Legal Proceedings</u>	<u>34</u>
Item 1A.	<u>Risk Factors</u>	<u>34</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
Item 5.	Other Information	<u>35</u>
Item 6.	<u>Exhibits</u>	<u>36</u>
	Signatures	<u>37</u>
	Exhibit Index	<u>38</u>

Table of Contents

Part I. Financial Information

Item 1. Financial Statements

INGRAM MICRO INC.

CONSOLIDATED BALANCE SHEET

(In 000s, except par value)

(Unaudited)

	October 3, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$945,317	\$692,777
Trade accounts receivable (less allowances of \$65,478 and \$70,716 at October 3, 2015 and January 3, 2015, respectively)	4,938,021	6,115,328
Inventory	3,668,590	4,145,012
Other current assets	627,286	532,406
Total current assets	10,179,214	11,485,523
Property and equipment, net	356,665	432,430
Goodwill	543,366	532,483
Intangible assets, net	326,734	318,689
Other assets	55,770	62,318
Total assets	\$11,461,749	\$12,831,443
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$5,622,480	\$6,522,369
Accrued expenses	585,950	542,038
Short-term debt and current maturities of long-term debt	127,245	372,026
Total current liabilities	6,335,675	7,436,433
Long-term debt, less current maturities	1,097,189	1,096,889
Other liabilities	113,219	132,295
Total liabilities	7,546,083	8,665,617
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value, 25,000 shares authorized; no shares issued and outstanding	—	—
Class A Common Stock, \$0.01 par value, 500,000 shares authorized; 194,923 and 193,563 shares issued and 149,689 and 156,214 shares outstanding at October 3, 2015 and January 3, 2015, respectively	1,949	1,935
Class B Common Stock, \$0.01 par value, 135,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	1,484,306	1,461,705
Treasury stock, 45,234 and 37,349 shares at October 3, 2015 and January 3, 2015, respectively	(839,524	) (636,493
Retained earnings	3,386,886	3,328,178
Accumulated other comprehensive income (loss)	(117,951	) 10,501
Total stockholders' equity	3,915,666	4,165,826
Total liabilities and stockholders' equity	\$11,461,749	\$12,831,443
See accompanying notes to these consolidated financial statements.		

Table of Contents

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales	\$10,515,880	\$11,237,840	\$31,713,584	\$32,531,208
Cost of sales	9,852,297	10,591,751	29,775,715	30,640,794
Gross profit	663,583	646,089	1,937,869	1,890,414
Operating expenses:				
Selling, general and administrative	510,990	494,507	1,526,340	1,481,743
Amortization of intangible assets	14,206	14,567	47,226	43,140
Reorganization costs	18,958	17,300	29,234	79,237
Impairment of internally developed software	—	—	115,856	—
	544,154	526,374	1,718,656	1,604,120
Income from operations	119,429	119,715	219,213	286,294
Other expense (income):				
Interest income	(991	) (1,045	) (2,650	) (3,782
Interest expense	18,429	16,659	61,799	54,406
Net foreign exchange loss (gain)	12,264	(3,323	) 26,540	(1,153
Other	313	4,467	7,256	13,011
	30,015	16,758	92,945	62,482
Income before income taxes	89,414	102,957	126,268	223,812
Provision for income taxes	24,492	30,723	52,364	76,132
Net income	\$64,922	\$72,234	\$73,904	\$147,680
Basic earnings per share	\$0.43	\$0.46	\$0.48	\$0.95
Diluted earnings per share	\$0.42	\$0.45	\$0.47	\$0.93
Cash dividends paid per common share	\$0.10	\$—	\$0.10	\$—

See accompanying notes to these consolidated financial statements.

Table of Contents

INGRAM MICRO INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In 000s)

(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net income	\$64,922	\$ 72,234	\$73,904	\$ 147,680
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(63,195	) (37,788	) (128,452	) (38,217
Other comprehensive loss, net of tax	(63,195	) (37,788	) (128,452	) (38,217
Comprehensive income (loss)	\$1,727	\$ 34,446	\$(54,548	) \$ 109,463

See accompanying notes to these consolidated financial statements.

Table of Contents

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

	Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014
Cash flows from operating activities:		
Net income	\$73,904	\$147,680
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation and amortization	113,435	108,202
Stock-based compensation	28,291	24,761
Excess tax benefit from stock-based compensation	(4,334)	(4,338)
Loss on write-off of assets	—	8,302
Gain on sale of property and equipment	(272)	—
Impairment of internally developed software	115,856	—
Noncash charges for interest and bond discount amortization	2,212	1,769
Deferred income taxes	1,553	(30,973)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Trade accounts receivable	1,078,501	566,097
Inventory	400,880	(551,609)
Other current assets	(107,241)	(30,350)
Accounts payable	(663,616)	(603,481)
Change in book overdrafts	(70,825)	166,361
Accrued expenses	(2,463)	(196,364)
Cash provided (used) by operating activities	965,881	(393,943)
Cash flows from investing activities:		
Capital expenditures	(99,022)	(52,369)
Sale of marketable securities, net	5,000	1,100
Proceeds from sale of property and equipment	1,145	—
Cost-based investment	—	(10,000)
Acquisitions, net of cash acquired	(100,855)	(18,880)
Cash used by investing activities	(193,732)	(80,149)
Cash flows from financing activities:		
Proceeds from exercise of stock options	10,279	16,943
Repurchase of Class A Common Stock	(205,608)	—
Excess tax benefit from stock-based compensation	4,334	4,338
Other consideration for acquisitions	(2,358)	—
Dividends paid to shareholders	(15,196)	—
Net proceeds from (repayments of) revolving credit facilities	(301,156)	283,133
Cash provided (used) by financing activities	(509,705)	304,414
Effect of exchange rate changes on cash and cash equivalents	(9,904)	(6,892)
Increase (decrease) in cash and cash equivalents	252,540	(176,570)
Cash and cash equivalents, beginning of period	692,777	674,390
Cash and cash equivalents, end of period	\$945,317	\$497,820
See accompanying notes to these consolidated financial statements.		

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

(Unaudited)

Note 1 – Organization and Basis of Presentation

Ingram Micro Inc. and its subsidiaries are primarily engaged in the distribution of information technology (“IT”) products, commerce and fulfillment services and mobile device lifecycle services worldwide. Ingram Micro Inc. and its subsidiaries operate in North America; Europe; Asia-Pacific (which includes Middle East and Africa); and Latin America.

The consolidated financial statements include the accounts of Ingram Micro Inc. and its subsidiaries. Unless the context otherwise requires, the use of the terms “Ingram Micro,” “we,” “us” and “our” in these notes to the consolidated financial statements refers to Ingram Micro Inc. and its subsidiaries. These consolidated financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments (consisting of only normal, recurring adjustments) necessary to fairly state our consolidated financial position as of October 3, 2015, our consolidated results of operations and comprehensive income for the thirteen and thirty-nine weeks ended October 3, 2015 and September 27, 2014 and our consolidated cash flows for the thirty-nine weeks ended October 3, 2015 and September 27, 2014. All significant intercompany accounts and transactions have been eliminated in consolidation. As permitted under the applicable rules and regulations of the SEC, these consolidated financial statements do not include all disclosures and footnotes normally included with annual consolidated financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed with the SEC for the year ended January 3, 2015. The consolidated results of operations for the thirteen and thirty-nine weeks ended October 3, 2015 may not be indicative of the consolidated results of operations that can be expected for the full year.

Book Overdrafts

Book overdrafts of \$329,498 and \$400,323 as of October 3, 2015 and January 3, 2015, respectively, represent checks issued on disbursement bank accounts but not yet paid by such banks. These amounts are classified as accounts payable in our consolidated balance sheet. We typically fund these overdrafts through normal collections of funds or transfers from other bank balances at other financial institutions. Under the terms of our facilities with the banks, the respective financial institutions are not legally obligated to honor the book overdraft balances as of October 3, 2015 and January 3, 2015, or any balance on any given date.

Trade Accounts Receivable Factoring Programs

We have several uncommitted factoring programs under which trade accounts receivable of several large customers may be sold, without recourse, to financial institutions. Available capacity under these programs is dependent on the amount of trade accounts receivable already sold into these programs and the financial institutions’ willingness to purchase such receivables. At October 3, 2015 and January 3, 2015, we had a total of \$293,097, and \$276,808, respectively, of trade accounts receivable sold to and held by financial institutions under these programs. Factoring fees of \$947 and \$1,058 incurred for the thirteen weeks ended October 3, 2015 and September 27, 2014, respectively, and \$3,263 and \$3,276 incurred for the thirty-nine weeks ended October 3, 2015 and September 27, 2014, respectively, related to the sale of trade accounts receivable under these facilities are included in “other” in the other expense (income) section of our consolidated statement of income.

Impairment of Internally Developed Software

We began our program to deploy a new global ERP system seven years ago. Over that period, the business has significantly diversified and new technologies allow legacy systems and diverse applications to easily be connected in a modular way, which allows these legacy systems to be part of a flexible, powerful and efficient solution. After careful evaluation, we have concluded that this combined systems strategy is better aligned with our evolving business model and is more flexible and economical than a single global system. Accordingly, we have stopped our global ERP

deployment and recorded a non-cash, pre-tax charge related to the impairment of internally developed software of \$115,856 during the second quarter of 2015. We recognized a tax benefit on the impairment at the applicable rates, partially offset by an increase in the valuation allowance on foreign tax credits of \$14,580 as a result of the decision to stop deployments.

7

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Note 2 – Stock Repurchase and Dividends

Dividends Paid to Shareholders

On July 30, 2015, we announced that our Board of Directors had authorized the adoption of a quarterly cash dividend policy. Under the cash dividend policy, holders of our common stock receive dividends as declared by our Board of Directors. During the thirteen and thirty-nine weeks ended October 3, 2015, we declared a cash dividend of \$0.10 per share, totaling \$15,196, to stockholders of record as of the close of business on September 1, 2015, which was paid on September 15, 2015. We may modify, suspend or cancel our cash dividend policy in any manner and at any time.

Share Repurchase Program

In July 2015, our Board of Directors authorized a new three-year, \$300,000 share repurchase program, which supplemented our previously authorized \$400,000 share repurchase program and has been completely utilized at October 3, 2015. Our new \$300,000 share repurchase program expires on July 29, 2018, and has \$218,487 remaining for repurchase at October 3, 2015.

Under these programs, we may repurchase shares in the open market and through privately negotiated transactions. Our repurchases are funded with available borrowing capacity and cash. The timing and amount of specific repurchase transactions will depend upon market conditions, corporate considerations and applicable legal and regulatory requirements. We account for repurchased shares of common stock as treasury stock. Treasury shares are recorded at cost and are included as a component of stockholders' equity in our consolidated balance sheet. We have issued shares of common stock out of our cumulative balance of treasury shares. Such shares are issued to certain of our associates upon the exercise of their options or vesting of their equity awards under the Ingram Micro Inc. 2011 Incentive Plan, as amended (the "2011 Incentive Plan") (see Note 4).

Our treasury stock repurchase and issuance activity for the thirty-nine weeks ended October 3, 2015 is summarized in the table below:

	Shares	Weighted Average Price Per Share	Amount
Cumulative balance of treasury stock at January 3, 2015	37,349	\$ 17.04	\$ 636,493
Repurchase of Class A Common Stock	8,032	25.60	205,608
Issuance of Class A Common Stock	(147)	) 16.77	(2,577)
Cumulative balance of treasury stock at October 3, 2015	45,234	\$ 18.56	\$ 839,524

Note 3 – Earnings Per Share

We report a dual presentation of Basic Earnings per Share ("Basic EPS") and Diluted Earnings per Share ("Diluted EPS"). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS uses the treasury stock method to compute the potential dilution that could occur if stock-based awards and other commitments to issue common stock were exercised. In periods when we recognize a net loss, we exclude the impact of outstanding stock awards from the diluted loss per share calculation, as their inclusion would have an anti-dilutive effect.

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net income	\$64,922	\$72,234	\$73,904	\$147,680
Weighted average shares	152,203	155,760	154,955	155,300
Basic EPS	\$0.43	\$0.46	\$0.48	\$0.95
Weighted average shares, including the dilutive effect of stock-based awards (2,539 and 3,783 for the thirteen weeks ended October 3, 2015 and September 27, 2014, respectively, and 3,061 and 3,881 for the thirty-nine weeks ended October 3, 2015 and September 27, 2014, respectively)	154,742	159,543	158,016	159,181
Diluted EPS	\$0.42	\$0.45	\$0.47	\$0.93

There were approximately 2,869 and 0 stock-based awards for the thirteen weeks ended October 3, 2015 and September 27, 2014, respectively, and 2,444 and 651 stock based awards for the thirty-nine weeks ended October 3, 2015 and September 27, 2014, 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 having an antidilutive effect.

Note 4 – Stock-Based Compensation

We currently have a single stock incentive plan, the 2011 Incentive Plan, amended during the second quarter of 2013, for the granting of equity-based incentive awards. We grant time- and/or performance-vested restricted stock and/or restricted stock units, in addition to stock options, to key employees and members of our Board of Directors. The performance measures for vesting of restricted stock and restricted stock units for grants to management for the periods presented are based on earnings growth, return on invested capital, total shareholder return, income from operations as a percent of revenue and income before tax. Awards granted under the 2011 Incentive Plan were as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Stock options granted ^(a)	—	—	839	700
Restricted stock and restricted stock units granted ^(a)	48	69	1,395	1,432
Stock-based compensation expense	\$10,762	\$8,301	\$28,291	\$24,761
Related income tax benefit	\$3,252	\$2,747	\$9,065	\$8,173
Exercised stock options	197	290	567	985
Vested restricted stock and/or restricted stock units ^(b)	47	38	1,455	879

(a) As of October 3, 2015, approximately 13,327 shares were available for grant under the 2011 Incentive Plan, taking into account granted options, time-vested restricted stock units/awards and performance-vested restricted stock units assuming maximum achievement.

(b) Includes 0 and 0 shares, for the thirteen weeks ended October 3, 2015 and September 27, 2014, respectively, and 1,015 and 145 shares, for the thirty-nine weeks ended October 3, 2015 and September 27, 2014, respectively, which were issued based on performance-based grants previously approved by the Human Resources Committee of the

Board of Directors. The remainder of the shares are time-based grants.

9

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Note 5 – Derivative Financial Instruments

We use foreign currency forward contracts that are not designated as hedges primarily to manage currency risk associated with foreign currency-denominated trade accounts receivable, accounts payable and intercompany loans. The notional amounts and fair values of derivative instruments in our consolidated balance sheet were as follows:

	Notional Amounts ⁽¹⁾		Fair Value	
	October 3, 2015	January 3, 2015	October 3, 2015	January 3, 2015
Derivatives not receiving hedge accounting treatment recorded in:				
Other current assets				
Foreign exchange contracts	\$1,524,817	\$1,863,626	\$20,061	\$31,213
Accrued expenses				
Foreign exchange contracts	624,660	450,352	(6,353	) (1,793
Total	\$2,149,477	\$2,313,978	\$13,708	\$29,420

(1) Notional amounts represent the gross amount of foreign currency bought or sold at maturity for foreign exchange contracts.

The amount recognized in earnings from our derivative instruments not receiving hedge accounting treatment, including ineffectiveness, is recorded in net foreign exchange loss (gain) as follows and was largely offset by the change in fair value of the underlying hedged assets or liabilities:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net gain (loss) recognized in earnings	\$(7,037	) \$92,802	\$84,857	\$85,828

Note 6 – Fair Value Measurements

Our assets and liabilities carried at fair value are classified and disclosed in one of the following three categories: Level 1 – quoted market prices in active markets for identical assets and liabilities; Level 2 – observable market-based inputs or unobservable inputs that are corroborated by market data; and Level 3 – unobservable inputs that are not corroborated by market data.

As of October 3, 2015, our assets and liabilities measured at fair value on a recurring basis are categorized in the table below:

	October 3, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents, consisting primarily of money market accounts and short-term certificates of deposit	\$200,000	\$200,000	\$—	\$—
Marketable trading securities ^(a)	50,509	50,509	—	—
Derivative assets	20,061	—	20,061	—
Total assets at fair value	\$270,570	\$250,509	\$20,061	\$—
Liabilities:				
Derivative liabilities	\$6,353	\$—	\$6,353	\$—
Contingent consideration	6,741	—	—	6,741
Total liabilities at fair value	\$13,094	\$—	\$6,353	\$6,741

(a) Included in other current assets in our consolidated balance sheet.

10

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

As of January 3, 2015, our assets and liabilities measured at fair value on a recurring basis are categorized in the table below:

	January 3, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents, consisting primarily of money market accounts and short-term certificates of deposit	\$90	\$90	\$—	\$—
Marketable trading securities ^(a)	56,616	56,616	—	—
Derivative assets	31,213	—	31,213	—
Total assets at fair value	\$87,919	\$56,706	\$31,213	\$—
Liabilities:				
Derivative liabilities	\$1,793	\$—	\$1,793	\$—
Contingent consideration	7,647	—	—	7,647
Total liabilities at fair value	\$9,440	\$—	\$1,793	\$7,647

(a) Included in other current assets in our consolidated balance sheet.

The fair value of the cash equivalents approximated cost and the gain or loss on the marketable trading securities was recognized in the consolidated statement of income to reflect these investments at fair value.

Our senior unsecured notes due in 2024, 2022 and 2017 are stated at amortized cost, and their respective fair values were determined based on Level 2 criteria. The fair values and carrying values of these notes are shown in the table below:

	October 3, 2015				Carrying Value
	Fair Value				
	Total	Level 1	Level 2	Level 3	
Liabilities:					
Senior unsecured notes, 5.25% due 2017	\$317,838	\$—	\$317,838	\$—	\$300,000
Senior unsecured notes, 5.00% due 2022	309,645	—	309,645	—	298,768
Senior unsecured notes, 4.95% due 2024	515,935	—	515,935	—	498,387
	\$1,143,418	\$—	\$1,143,418	\$—	\$1,097,155
	January 3, 2015				Carrying Value
	Fair Value				
	Total	Level 1	Level 2	Level 3	
Liabilities:					
Senior unsecured notes, 5.25% due 2017	\$323,527	\$—	\$323,527	\$—	\$300,000
Senior unsecured notes, 5.00% due 2022	314,954	—	314,954	—	298,634
Senior unsecured notes, 4.95% due 2024	499,923	—	499,923	—	498,255
	\$1,138,404	\$—	\$1,138,404	\$—	\$1,096,889

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Note 7 – Acquisitions, Goodwill and Intangible Assets

On June 14, 2015, we acquired a 75% majority interest in Arabian Applied Technology ("Aptec Saudi"), the largest value-added technology distributor in Saudi Arabia for a payment of \$5,200, net of cash acquired. In addition, the purchase price includes a deferred payment of \$1,806, payable over the next fiscal year. The major class of assets and liabilities to which we preliminarily allocated the purchase price were identifiable intangible assets of \$4,300. The identifiable intangible asset consists of customer relationships with estimated useful lives of seven years. As of October 3, 2015, we recorded minority interest of \$1,800 in other liabilities on the consolidated balance sheet for the remaining 25% interest in Aptec Saudi.

On March 16, 2015, we acquired all of the outstanding shares of Tech Data Peru S.A.C. and Tech Data Chile S.A. for a cash payment of \$15,979, net of cash acquired, and the assumption of debt of \$43,658. The consideration paid was preliminarily allocated to the fair value of net tangible assets, which primarily consisted of accounts receivable, inventory and accounts payable.

On February 27, 2015, we acquired 97.5% of the outstanding shares of Anovo Expansion SAS ("Anovo"), a leading global provider of device lifecycle services for a payment of \$68,123, net of cash acquired, plus assumption of debt of \$32,486. The major classes of assets and liabilities to which we allocated the purchase price were \$52,728 to identifiable intangible assets, and \$27,185 to goodwill. The identifiable intangible assets primarily consist of developed technology, a trade name and customer relationships. The goodwill recognized in connection with this acquisition is primarily attributable to the assembled workforce. During the thirteen weeks ended October 3, 2015, we acquired an additional 1.5% of the outstanding shares of Anovo for \$835. As of October 3, 2015, we recorded minority interest of \$556 in other liabilities on the consolidated balance sheet for the remaining 1.0% of the outstanding shares.

In addition, during the thirty-nine weeks ended October 3, 2015, we completed two small but strategic acquisitions for cash aggregating \$1,880, and an estimated future earn-out payment of \$613. These acquisitions will enhance our existing portfolio of products and services. The purchase price was preliminarily allocated to the assets and liabilities assumed based on their estimated fair values on the transaction date, resulting in the recording of identifiable intangible assets of \$1,294, primarily related to customer relationships. We did not record goodwill related to these acquisitions.

These acquired entities have been included in our consolidated results of operations since the respective acquisition dates. Pro forma results of operations have not been presented for the 2015 acquisitions because the historical results of these acquisitions, individually and in aggregate, were not material to our consolidated results of operations.

During the thirty-nine weeks ended October 3, 2015, we acquired an additional 21% of the outstanding shares of Armada Computer Systems for \$8,838. As of October 3, 2015, we owned 79% of the outstanding shares, and we recorded minority interest of \$9,125 in other liabilities on the consolidated balance sheet for the remaining 21% of the outstanding shares.

Finite-lived identifiable intangible assets are amortized over their remaining estimated lives ranging up to 13 years with the predominant amounts having lives of 3 to 10 years. The gross and net carrying amounts of finite-lived identifiable intangible assets are as follows:

Edgar Filing: INGRAM MICRO INC - Form 10-Q

	October 3, 2015	January 3, 2015
Gross carrying amount of finite-lived intangible assets	\$446,751	\$488,753
Net carrying amount of finite-lived intangible assets	\$326,734	\$318,689

12

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Note 8 – Reorganization Costs

2015 and 2014 Actions

On February 13, 2014 we announced a plan to proceed with a global organizational effectiveness program that involved aligning and leveraging our infrastructure globally with our evolving businesses, opportunities and resources, and de-layering and simplifying the organization. On May 4, 2015, we announced our intention to take certain global actions to further streamline our cost structure.

As a result of these actions, we recognized net reorganization charges of \$18,958, and \$17,300 during the thirteen weeks ended October 3, 2015 and September 27, 2014, respectively, which primarily related to employee termination benefits of \$18,139 and \$17,195 in the respective periods.

During the thirty-nine weeks ended October 3, 2015 and September 27, 2014, we recognized net reorganization charges of \$29,234, and \$79,237, respectively. The reorganization charges during the thirty-nine weeks ended October 3, 2015 primarily related to employee termination benefits of \$29,816. During the thirty-nine weeks ended September 27, 2014, the reorganization charges primarily related to \$71,749 of employee termination benefits, and \$7,541 for a previously acquired trade name that we wrote-off as we integrated certain operations under the Ingram Micro brand.

2013 and Prior Actions

In 2013, we incurred net reorganization costs primarily relating to a number of key initiatives, including: (a) the integration of BrightPoint operations into Ingram Micro, resulting in headcount reductions and the closure of certain BrightPoint facilities, and the exit of a portion of our Australian offices in Asia-Pacific; (b) headcount reductions in Europe and Asia-Pacific to respond to the market environment at such time, and (c) the transition of certain transaction-oriented service and support functions to shared service centers.

A summary of the reorganization and expense-reduction program costs incurred in the thirteen weeks ended October 3, 2015 and September 27, 2014, are as follows:

	Reorganization Costs					Total Costs
	Headcount Reduction	Employee Termination Benefits	Facility and Other Costs	Total Reorganization Costs	Adjustments to Prior Year Costs	
Thirteen weeks ended						
October 3, 2015						
North America		\$8,631	\$—	\$ 8,631	\$(250)	\$8,381
Europe		5,663	1,186	6,849	(117)	6,732
Asia-Pacific		3,315	—	3,315	—	3,315
Latin America		530	—	530	—	530
Total	497	\$18,139	\$1,186	\$ 19,325	\$(367)	\$18,958
Thirteen weeks ended						
September 27, 2014						
North America		\$5,289	\$14	\$ 5,303	\$—	\$5,303
Europe		11,070	—	11,070	—	11,070
Asia-Pacific		322	91	413	—	413
Latin America		514	—	514	—	514
Total	97	\$17,195	\$105	\$ 17,300	\$—	\$17,300

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

A summary of the reorganization and expense-reduction program costs incurred in the thirty-nine weeks ended October 3, 2015 and September 27, 2014, are as follows:

	Reorganization Costs			Total Reorganization Costs	Adjustments to Prior Year Costs	Total Costs
	Headcount Reduction	Employee Termination Benefits	Facility and Other Costs			
Thirty-nine Weeks Ended						
October 3, 2015						
North America		\$13,248	\$56	\$ 13,304	\$(1,212)	\$12,092
Europe		11,891	1,946	13,837	(1,836)	12,001
Asia-Pacific		3,984	—	3,984	—	3,984
Latin America		693	464	1,157	—	1,157
Total	568	\$29,816	\$2,466	\$ 32,282	\$(3,048)	\$29,234

Thirty-nine Weeks Ended

September 27, 2014

North America		\$12,714	\$7,541	\$ 20,255	\$—	\$20,255
Europe		55,584	—	55,584	(36)	55,548
Asia-Pacific		2,334	98	2,432	(115)	2,317
Latin America		1,117	—	1,117	—	1,117
Total	922	\$71,749	\$7,639	\$ 79,388	\$(151)	\$79,237

The remaining liabilities and 2015 activities associated with the aforementioned actions are summarized in the table below:

	Reorganization Liability			Foreign Currency Translation	Remaining Liability at October 3, 2015
	Remaining Liability at January 3, 2015	Expenses (Income), Net	Amounts Paid and Charged Against the Liability		
2015 and 2014 reorganization actions					
Employee termination benefits	\$24,296	\$27,980	(c) \$(30,319)	\$(2,519)	\$19,438
Facility and other costs	—	2,079	(d) (2,079)	—	—
Subtotal	24,296	30,059	(32,398)	(2,519)	19,438 (a)
2013 and prior reorganization actions					
Employee termination benefits	118	—	(118)	—	—
Facility and other costs	2,496	(825)	(d) (958)	(196)	517
Subtotal	2,614	(825)	(1,076)	(196)	517 (b)
	\$26,910	\$29,234	\$(33,474)	\$(2,715)	\$19,955

(a) We expect the remaining liabilities to be substantially utilized by the end of 2015.

(b) We expect the remaining liabilities to be substantially utilized by the end of 2016.

(c) Adjustments reflected in the table above include a reduction of \$1,836 to reorganization liabilities recorded in the prior year in Europe for lower than expected employee termination benefits.

(d)

Edgar Filing: INGRAM MICRO INC - Form 10-Q

Adjustments reflected in the table above include reductions of \$387 and \$825 to 2014 and 2013 reorganization plan liabilities, respectively, recorded in the prior year in North America for lower than expected facility and other costs.

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Note 9 – Debt

The carrying value of our outstanding debt consists of the following:

	October 3, 2015	January 3, 2015
Senior unsecured notes, 4.95% due 2024, net of unamortized discount of \$1,613 and \$1,745, respectively	\$498,387	\$498,255
Senior unsecured notes, 5.00% due 2022, net of unamortized discount of \$1,232 and \$1,366, respectively	298,768	298,634
Senior unsecured notes, 5.25% due 2017	300,000	300,000
North America revolving trade accounts receivable-backed financing program	—	185,000
Lines of credit and other debt	127,279	187,026
	1,224,434	1,468,915
Short-term debt and current maturities of long-term debt	(127,245)	(372,026)
	\$1,097,189	\$1,096,889

Note 10 – Income Taxes

Our effective tax rate for the thirteen weeks ended October 3, 2015 was 27.4% compared to 29.8% for the thirteen weeks ended September 27, 2014. For the thirty-nine weeks ended October 3, 2015 and September 27, 2014, our effective tax rate was 41.5% and 34.0%, respectively. Under U.S. accounting rules for income taxes, quarterly effective tax rates may vary significantly depending on the actual operating results in the various tax jurisdictions, as well as changes in the valuation allowance related to the expected recovery of deferred tax assets.

The thirteen weeks ended October 3, 2015 included net discrete benefits of approximately \$1,945, or 2.2 percentage points of the effective tax rate, primarily related to the release of unrealized tax benefits due to expiration of statute of limitations in various jurisdictions. The thirteen weeks ended September 27, 2014 included net discrete benefits of approximately \$6,618, or 6.4 percentage points of the effective tax rate, primarily driven by the release of unrealized tax benefits due to the expiration of statute of limitations in various jurisdictions.

The thirty-nine weeks ended October 3, 2015 included net discrete expenses of approximately \$9,580, or 7.6 percentage points of the effective tax rate, primarily related to discrete expense of \$14,580 due to an increase to the valuation allowance on foreign tax credits, partially offset by net discrete benefit of \$5,000 primarily driven by the release of unrealized tax benefits due to the expiration of statute of limitations in various jurisdictions. The thirty-nine weeks ended September 27, 2014 included net discrete benefits of approximately \$9,143, or 4.1 percentage points of the effective tax rate, which includes the discrete items noted above for the thirteen weeks ended September 27, 2014, as well as \$2,525 of net discrete benefits primarily related to positive adjustments to certain deferred tax benefits.

Our effective tax rate differed from the U.S. federal statutory rate of 35% during these periods primarily due to the items noted above, as well as the relative mix of earnings or losses within the tax jurisdictions in which we operate, such as: (a) earnings in lower-tax jurisdictions for which no U.S. taxes have been provided because such earnings are planned to be reinvested indefinitely outside the United States; (b) losses in certain jurisdictions in which we are not able to record a tax benefit; and (c) changes in the valuation allowance on deferred tax assets.

At October 3, 2015, we had gross unrecognized tax benefits of \$24,107 compared to \$30,372 at January 3, 2015, representing a net decrease of \$6,265 during the thirty-nine weeks ended October 3, 2015. Substantially all of the gross unrecognized tax benefits, if recognized, would impact our effective tax rate in the period of recognition.

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. In addition to the gross unrecognized tax benefits identified above, the interest and penalties recorded to date by us totaled \$6,841 and \$7,625 at October 3, 2015 and January 3, 2015, respectively.

Our future effective tax rate will continue to be affected by changes in the relative mix of taxable income and losses in the tax jurisdictions in which we operate, changes in the valuation of deferred tax assets, or changes in tax laws or interpretations thereof. In addition, our income tax returns are subject to continuous examination by the IRS and other tax authorities. The IRS has concluded its examinations of tax years prior to 2012. It is possible that within the next twelve months, ongoing tax examinations in the United States and several of our foreign jurisdictions may be resolved, that new tax exams may commence and that other issues may be effectively settled. However, we do not expect our assessment of unrecognized tax benefits to change significantly over that time.

Note 11 – Segment Information

Geographic areas in which we operate include North America (the United States and Canada), Europe (Austria, Belgium, Denmark, France, Finland, Germany, Hungary, Italy, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, Switzerland and the United Kingdom), Asia-Pacific (Australia, the People’s Republic of China including Hong Kong, Egypt, India, Indonesia, Israel, Lebanon, Malaysia, New Zealand, Singapore, South Africa, Saudi Arabia, Thailand, Turkey, and United Arab Emirates) and Latin America (Brazil, Chile, Colombia, Mexico, Peru and our Latin American export operations in Miami).

We do not allocate stock-based compensation recognized (see Note 4) to our operating segments; therefore, we are reporting this as a separate amount. Additionally, we did not allocate the impairment of internally developed software to the regions; it has been presented separately.

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Financial information by reporting segment is as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales				
North America	\$4,477,097	\$5,134,339	\$13,537,238	\$13,887,423
Europe	2,928,507	3,200,399	8,857,752	10,077,384
Asia-Pacific	2,528,116	2,378,228	7,553,865	7,026,471
Latin America	582,160	524,874	1,764,729	1,539,930
Total	\$10,515,880	\$11,237,840	\$31,713,584	\$32,531,208
Income (loss) from operations				
North America	\$88,742	\$85,716	\$223,596	\$219,484
Europe	2,577	2,090	20,913	(6,039)
Asia-Pacific	31,816	31,005	94,358	71,455
Latin America	7,056	9,205	24,493	26,155
Stock-based compensation expense	(10,762)	(8,301)	(28,291)	(24,761)
Impairment of internally developed software	—	—	(115,856)	—
Total	\$119,429	\$119,715	\$219,213	\$286,294
Capital expenditures				
North America	\$35,121	\$8,430	\$77,315	\$41,126
Europe	3,862	1,339	11,514	5,493
Asia-Pacific	2,958	1,373	8,409	4,597
Latin America	508	330	1,784	1,153
Total	\$42,449	\$11,472	\$99,022	\$52,369
Depreciation				
North America	\$16,455	\$16,141	\$47,969	\$44,982
Europe	3,082	3,364	8,630	11,117
Asia-Pacific	2,744	2,635	8,182	7,812
Latin America	449	406	1,428	1,151
Total	\$22,730	\$22,546	\$66,209	\$65,062
Amortization of intangible assets				
North America	\$8,115	\$9,955	\$28,847	\$29,574
Europe	3,167	2,977	11,306	8,682
Asia-Pacific	1,997	1,430	5,743	4,269
Latin America	927	205	1,330	615
Total	\$14,206	\$14,567	\$47,226	\$43,140

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

The integration, transition and other costs included in income from operations by reporting segment are as follows:

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Integration, transition and other costs ^(a)				
North America	\$5,901	\$4,591	\$16,545	\$12,924
Europe	5,749	4,341	8,601	6,105
Asia-Pacific	3,674	267	5,311	2,157
Latin America	729	—	2,356	—
Total	\$16,053	\$9,199	\$32,813	\$21,186

Costs are primarily related to (i) professional, consulting and integration costs associated with our acquisitions, (ii) consulting, retention and transition costs associated with our organizational effectiveness program charged to selling, general and administrative, or SG&A, expenses and (iii) a charge of \$4,736 for an estimated settlement of employee related taxes assessed in Europe recorded in the third quarter of 2015. Also included is a gain of \$6,600 related to the final settlement of a class action lawsuit against the manufacturers of LCD flat panel displays, which was recorded as a reduction of SG&A expense in North America in the first quarter of 2014.

For a segment breakdown of reorganization costs, refer to Note 8.

	As of October 3, 2015	January 3, 2015
Identifiable assets		
North America	\$4,887,004	\$5,899,901
Europe	3,357,395	3,599,400
Asia-Pacific	2,438,766	2,564,273
Latin America	778,584	767,869
Total	\$11,461,749	\$12,831,443
Long-lived assets		
North America	\$445,467	\$561,809
Europe	143,637	105,913
Asia-Pacific	72,558	76,177
Latin America	21,737	7,220
Total	\$683,399	\$751,119

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Net sales and long-lived assets for the United States, which is our country of domicile, are as follows:

	Thirteen Weeks Ended					
	October 3, 2015		September 27, 2014			
Net sales:						
United States	\$4,183,568	40	% \$4,763,535	42		%
Outside of the United States	6,332,312	60	% 6,474,305	58		%
Total	\$10,515,880	100	% \$11,237,840	100		%
	Thirty-nine Weeks Ended					
	October 3, 2015		September 27, 2014			
Net sales:						
United States	\$12,611,394	40	% \$12,714,462	39		%
Outside of the United States	19,102,190	60	% 19,816,746	61		%
Total	\$31,713,584	100	% \$32,531,208	100		%
			As of			
			October 3, 2015	January 3, 2015		
Long-lived assets:						
United States			\$424,006	\$493,475		
Outside of the United States			259,393	257,644		
Total			\$683,399	\$751,119		

Note 12 – Commitments and Contingencies

Our Brazilian subsidiary received a 2005 Federal import tax assessment claiming certain commercial taxes totaling Brazilian Reais 12,714 (\$3,280 at October 3, 2015 exchange rates) were due on the import of software acquired from international vendors for the period January through September of 2002. While we will continue to vigorously pursue administrative and, if applicable, judicial action in defending against this matter, we continue to maintain a reserve for the full tax amount assessed at October 3, 2015.

Our Brazilian subsidiary has also received a number of additional tax assessments, including the following that have a reasonable possibility of a loss: (1) a 2007 Sao Paulo municipal tax assessment claiming Brazilian Reais 29,111 (\$7,510 at October 3, 2015 exchange rates) of service taxes were due on the resale of acquired software covering years 2002 through 2006, plus Brazilian Reais 25,972 (\$6,701 at October 3, 2015 exchange rates) of associated penalties; (2) a 2011 Federal income tax assessment, a portion of which claims statutory penalties totaling Brazilian Reais 15,947 (\$4,114 at October 3, 2015 exchange rates) for delays in providing certain electronic files during the audit of tax years 2008 and 2009, which was conducted through the course of 2011; (3) a 2012 Sao Paulo municipal tax assessment claiming Brazilian Reais 2,996 (\$773 at October 3, 2015 exchange rates) of service taxes due on the importation of software covering the year 2007 plus Brazilian Reais 1,498 (\$386 at October 3, 2015 exchange rates) of associated penalties; and (4) a 2013 Sao Paulo municipal tax assessment claiming Brazilian Reais 10,726 (\$2,767 at October 3, 2015 exchange rates) of service taxes due on the importation of software covering the years 2008, 2009, 2010 and January through May 2011 plus Brazilian Reais 5,363 (\$1,384 at October 3, 2015 exchange rates) of associated penalties. After working with our advisors, we believe these matters do not represent a probable loss.

In addition to the amounts described above, it is reasonably possible that incremental charges for penalties, interest and inflationary adjustments could be imposed in an amount up to Brazilian Reais 273,366 (\$70,526 at October 3, 2015 exchange rates) for these matters. We believe we have good defenses against each matter and do not believe it is probable that we will suffer a material loss for these matters.

There are various other claims, lawsuits and pending actions against us incidental to our operations. It is the opinion of management that the ultimate resolution of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, we can make no assurances that we will ultimately be successful in our defense of any of these matters.

Table of Contents

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

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

We have guarantees to third parties that provide financing to a limited number of our customers. Net sales under these arrangements accounted for less than one percent of our consolidated net sales for each of the periods presented. The guarantees require us to reimburse the third party for defaults by these customers up to an aggregate of \$9,965. The fair value of these guarantees has been recognized as cost of sales to these customers and is included in accrued expenses.

Note 13 - New Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05, "Intangibles-Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement", which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The standard is effective for periods beginning after December 15, 2015. We continue to evaluate the impact of the new guidance on our financial position, results of operations and cash flows.

In May 2014, the FASB issued an accounting standard that will supersede existing revenue recognition guidance under current U.S. GAAP. The new standard is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods and services. The accounting standard is effective for us in the first quarter of fiscal year 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt this standard, and management is currently evaluating which transition approach to use. Early adoption is permitted in the first quarter of fiscal year 2017. We are currently in the process of assessing what impact this new standard may have on our consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, "Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-Of-Credit Arrangements and Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting". The guidance in the previously issued ASU 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The standard is effective for periods beginning after December 15, 2015. The new guidance is not expected to have a material impact on our financial position, and we intend to adopt this standard in 2016.

Note 14- Subsequent Event

Edgar Filing: INGRAM MICRO INC - Form 10-Q

On October 29, 2015 we declared a quarterly dividend of \$0.10 per share. The dividend will be payable to the stockholders of record on November 10, 2015, and paid on November 24, 2015.

Table of Contents

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

Unless otherwise stated, all currency amounts, other than per share information, contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are stated in thousands.

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Exchange Act, as amended. Statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements, and may include, but are not limited to, management's expectations of competition; market share; revenues, margin, expenses and other operating results or ratios; economic conditions; vendor terms and conditions; pricing strategies and customer terms and conditions; organizational effectiveness program and related restructuring, integration and other reorganization costs; additional cost reduction measures and related restructuring costs; process and efficiency enhancements; cost savings; cash flows; working capital levels and days; capital expenditures; liquidity; capital requirements; effective tax rates; acquisitions and integration costs and benefits to our business; operating models; exchange rate fluctuations and related currency gains and losses; resolution of contingencies; seasonality; interest rates and expenses; and rates of return. In evaluating our business, readers should carefully consider the important factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended January 3, 2015 and this Quarterly Report on Form 10-Q, as filed with the Securities and Exchange Commission. These factors could cause our actual results and conditions to differ materially from our historical performance or those projected in our forward-looking statements. We disclaim any duty to update any forward-looking statements.

Overview of Our Business

Ingram Micro helps businesses realize the promise of technology by delivering a full spectrum of global technology and commerce and fulfillment services to businesses around the world. Ingram Micro's global infrastructure and deep expertise in technology solutions, supply chain, cloud and mobility help to enable its business partners to operate efficiently and successfully in the markets they serve. We are the largest wholesale technology distributor and a global leader in IT supply-chain and mobile device lifecycle services based on revenues. We offer a broad range of IT products and commerce and fulfillment services to help generate demand and create efficiencies for our customers and suppliers around the world. Our results of operations have been, and will continue to be, directly affected by the conditions in the economy in general. Historically, our margins have been impacted by pressures from price competition and declining average selling prices, 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 competitive pricing pressures and restrictive vendor terms and conditions to continue in the foreseeable future. In addition, our margins have and may continue to be impacted by our inventory levels, which are based on projections of future demand, product availability, product acceptance and marketability, and market conditions. Any sudden decline in demand and/or rapid technological changes in products could cause us to have a charge for excess and/or obsolete inventory. We continue to monitor and refine our pricing strategies, inventory management processes and vendor program processes to respond to and mitigate the impact of these factors. In addition, we continuously monitor and work to change, as appropriate, certain terms, conditions and credit offered to our customers to reflect those being imposed by our vendors, to recover costs and/or to facilitate sales opportunities. Our business also requires significant levels of working capital primarily to finance trade accounts receivable and inventory. We have historically relied on, and continue to rely heavily on, trade credit from vendors, available cash, debt and factoring of trade accounts receivable for our working capital needs.

While the primary 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, we strive to improve our profitability through diversification of product offerings, including our presence in adjacent product categories, such as automatic identification/data capture and point-of-sale, or AIDC/POS, enterprise computing and data center. Additionally, we are expanding our capabilities in what we believe are faster growing and higher margin service oriented businesses such as mobility device life cycle services, commerce and fulfillment services, formerly supply chain services, and cloud. Over the past few years, we have complemented our internal growth initiatives with strategic business acquisitions. Although we expect that these acquisitions and our organic investments will expand

our capabilities in these areas, service revenues currently represent less than 10% of total net sales for all periods presented.

We sell finished products purchased from many vendors but generated approximately 14%, 12% and 10% of our consolidated net sales for the thirteen weeks ended October 3, 2015 from products purchased from Hewlett-Packard Company, Apple Inc. and Cisco Systems, Inc., respectively. We generated approximately 14%, 9%, and 9% of our consolidated net sales for the thirteen weeks ended September 27, 2014 from products purchased from Hewlett-Packard Company, Apple Inc., and Cisco Systems, Inc., respectively.

For the thirty-nine weeks ended October 3, 2015, we generated approximately 15% and 12% of our consolidated net sales, and for the thirty-nine weeks ended September 27, 2014, approximately 15% and 9% of our consolidated net sales from products purchased from Hewlett-Packard Company and Apple Inc., respectively.

Table of Contents

Management's Discussion and Analysis Continued

We manage our business through continuous cost controls and process and efficiency enhancements. This may also include, from time to time, reorganization actions to further enhance productivity and profitability and could result in the recognition of reorganization costs or impairment of assets.

To further enhance our ability to innovate and respond to market needs with greater speed and efficiency, on February 13, 2014 we announced a plan to proceed with a global organizational effectiveness program (the "2014 Program") that involved aligning and leveraging our infrastructure globally with our evolving businesses, opportunities and resources, and de-layering and simplifying the organization.

The 2014 Program is complete and has generated in excess of \$80,000 in annual cost savings compared to the 2013 fiscal year. We have incurred reorganization as well as transition and other related costs aggregating \$11,920 for the thirty-nine weeks ended October 3, 2015, which includes \$6,015 related to employee termination benefits associated with this program and \$5,906 of transition and integration costs.

In addition, in May 2015, we announced our intention to take additional actions globally to further streamline our cost structure. These actions are expected to result in annualized savings of approximately \$100,000 in 2016, and realized savings of approximately \$15,000 in 2015, while one-time costs associated with these actions are expected to be between \$50,000 to \$60,000. During the thirteen and thirty-nine weeks ended October 3, 2015, we recognized \$19,325, and \$23,176, respectively, of reorganization costs related to this plan with the remainder expected to be recognized in the final quarter of 2015.

We began our program to deploy a new global ERP system seven years ago. Over that period, the business has significantly diversified and new technologies allow legacy systems and diverse applications to easily be connected in a modular way, which allows these legacy systems to be part of a flexible, powerful and efficient solution. After careful evaluation, we have concluded that this combined systems strategy is better aligned with our evolving business model and is more flexible and economical than a single global system. Accordingly, we have stopped our global ERP deployment and recorded a non-cash, pre-tax charge related to the impairment of internally developed software of \$115,856 during the second quarter of 2015. We recognized a tax benefit on the impairment at the applicable rates, partially offset by an increase in the valuation allowance on foreign tax credits of \$14,580 as a result of the decision to stop deployments.

During the third quarter of 2015, we announced that our Board of Directors had authorized the adoption of a quarterly cash dividend policy, as well as authorization of a new three-year, \$300,000 share repurchase program. Under the cash dividend policy, holders of our common stock receive dividends as declared by our Board of Directors. During the thirteen weeks ended October 3, 2015, we declared and paid a cash dividend of \$0.10 per share, totaling \$15,196. On October 29, 2015, we declared an additional cash dividend of \$0.10 per share that will be paid on November 24, 2015 to shareholders of record on November 10, 2015. Under our share repurchase programs, we have repurchased 6,363 and 8,032 shares of Class A Common Stock, respectively, for consideration of \$161,399 and \$205,608, respectively, during the thirteen and thirty-nine weeks ended October 3, 2015.

Table of Contents

Management's Discussion and Analysis Continued

Results of Operations for the Thirteen Weeks Ended October 3, 2015 Compared to the Thirteen Weeks Ended September 27, 2014

	Thirteen Weeks Ended		September 27, 2014		Change - Increase (Decrease)		
	October 3, 2015				Amount	Percentage	
Net sales by reporting segment							
North America	\$4,477,097	43	% \$5,134,339	46	% \$(657,242)	(12.8)	%
Europe	2,928,507	28	3,200,399	28	(271,892)	(8.5)	
Asia-Pacific	2,528,116	24	2,378,228	21	149,888	6.3	
Latin America	582,160	5	524,874	5	57,286	10.9	
Total	\$10,515,880	100	% \$11,237,840	100	% \$(721,960)	(6.4)	%

	Thirteen Weeks Ended		September 27, 2014		Change - Increase (Decrease)		
	October 3, 2015				Amount	Percentage	
Operating income and operating margin by reporting segment							
North America	\$88,742	1.98	% \$85,716	1.67	% \$3,026	0.31	%
Europe	2,577	0.09	2,090	0.07	487	0.02	
Asia-Pacific	31,816	1.26	31,005	1.30	811	(0.04)	
Latin America	7,056	1.21	9,205	1.75	(2,149)	(0.54)	
Stock-based compensation expense	(10,762)	—	(8,301)	—	(2,461)	—	
Total	\$119,429	1.14	% \$119,715	1.07	% \$(286)	0.07	%

	Thirteen Weeks Ended			
	October 3, 2015	September 27, 2014		
Net sales	100.00	% 100.00		%
Cost of sales	93.69	94.25		
Gross profit	6.31	5.75		
Operating expenses:				
Selling, general and administrative	4.86	4.40		
Amortization of intangible assets	0.14	0.13		
Reorganization costs	0.18	0.15		
Impairment of internally developed software	—	—		
Income from operations	1.14	1.07		
Other expense, net	0.29	0.15		
(Loss) income before income taxes	0.85	0.92		
Provision for income taxes	0.23	0.27		
Net (loss) income	0.62	% 0.64		%

Table of Contents

Management's Discussion and Analysis Continued

The 6.4% decrease in our consolidated net sales for the thirteen weeks ended October 3, 2015, or third quarter of 2015, compared to the thirteen weeks ended September 27, 2014, or third quarter of 2014, was driven by the translation impact of weaker foreign currencies, which had a negative impact of eight percentage points. Our acquisitions of Armada, Anovo, Aptec Saudi and distribution businesses in Chile and Peru contributed approximately two percentage points of growth. Our global revenue growth in local currencies reflects solid growth in Europe, Asia-Pacific and Latin America, partially offset by declines in North America. Technology solutions revenue increased with modest IT spending growth across most segments and regions, partially offset by softer consumer demand, particularly for personal computers in North America, which benefited from strong sales last year due to the expiration of Microsoft XP support. Mobility sales declined modestly, with lower Verizon Wireless channel sales, as anticipated, more than offsetting strong iPhone demand globally and the contribution from recently acquired Anovo. The 12.8% decrease in North American net sales in the third quarter of 2015 compared to the third quarter of 2014 includes the translation impact of a weaker Canadian dollar relative to the U.S. dollar which had a negative impact on net sales of approximately two percentage points. The remaining decrease reflects lower distribution sales in mobility, as we exited portions of the North American mobility distribution business that did not meet our profitability requirements. Distribution revenues were also down as demand for personal computers (PC) and tablets declined when compared to the robust PC growth in the prior year. These decreases were partially offset by good performance in data center and networking infrastructure solutions sales, and strength in higher value specialty categories of training services, virtualization and unified communications. Cloud and logistics is also growing, as we continue to gain traction from these businesses, although from a small base currently.

The 8.5% decrease in European net sales includes the translation impact of weaker foreign currencies relative to the U.S. dollar which had a negative impact on net sales of approximately 16 percentage points. Our acquisition of Anovo contributed approximately two percentage points of growth. Revenue in all lines of business were up in local currency. Demand for iPhones remained strong, while PC sales were relatively flat. Demand in Germany was solid, with strength in networking and mobility, while France, Italy and Spain contributed strong growth particularly in specialty and advanced solutions.

The 6.3% increase in our Asia-Pacific net sales includes the translation impact of weaker foreign currencies relative to the U.S. dollar which had a negative impact on net sales of approximately ten percentage points. Our acquisitions of Armada and Aptec Saudi contributed approximately five percentage points of growth. The region saw growth in higher margin advanced solutions and had a modest increase in PC sales. Australia continued to contribute double-digit growth in local currency, benefiting from share gains across most product lines and new vendor additions. India also had strong growth across most product lines, particularly in the enterprise market. China had solid growth particularly in mobility.

The 10.9% increase in Latin American net sales includes the translation impact of weaker foreign currencies relative to the U.S. dollar which had a negative impact on net sales of approximately 21 percentage points. Our recent acquisitions of distribution businesses in Peru and Chile and the addition of Anovo contributed a total of approximately 11 percentage points of growth. Brazil and Mexico both had robust double-digit growth, with strength broadly, including advanced solutions and consumer sales.

Gross profit margin increased by 56 basis points, in the third quarter of 2015 compared to the third quarter of 2014, driven by the benefit of the higher margin Anovo business, which added 30 basis points to our gross margin, and a greater mix of advanced solutions sales, particularly in North America and Europe. Additionally, the lower mix of sales from our North American mobility distribution business had a positive impact on gross margin when compared to the prior year.

Total selling, general and administrative expenses, or SG&A expenses, increased \$16,483, or 3.3%, in the third quarter of 2015 compared to the third quarter of 2014. The increase in SG&A expenses primarily reflects our

acquisitions, which added approximately \$40,000, costs associated with growth in our cloud and commerce and fulfillment businesses, variable costs associated with the increased volume of sales in local currency, and further organic investment in higher value businesses; partially offset by the translation impact of foreign currencies relative to the U.S. dollar which reduced SG&A expenses by approximately \$38,000 and savings from the implementation of our reorganization programs. We also incurred a charge of \$4,736 for an estimated settlement of employee related taxes assessed in Europe recorded in the third quarter of 2015.

Amortization of intangible assets decreased \$361 in the third quarter of 2015 compared to the third quarter of 2014 due to foreign currency translation as well as certain intangible assets becoming fully amortized during the current quarter.

During the third quarter of 2015 and 2014, we incurred net reorganization costs of \$18,958 and \$17,300, respectively. 2015 amounts primarily related to employee termination costs incurred for our recently announced global actions, while 2014 costs primarily related to employee termination benefits incurred in connection with our global organizational effectiveness program announced in 2014 (See Note 8 to our consolidated financial statements).

Table of Contents

Management's Discussion and Analysis Continued

Operating margin in the third quarter of 2015 increased seven basis points compared to the third quarter of 2014, primarily reflecting a better mix of higher margin core business sales.

The increase in our North American operating margin of 31 basis points in the third quarter of 2015 compared to the third quarter of 2014 reflects a better mix of higher margin advanced solutions sales, as well as lower consumer sales, particularly for PC's. In addition, we reduced a portion of the mobility distribution business that did not meet our profitability targets. These improvements were partially offset by continued strategic investments to capitalize on the momentum we are gaining in our growing cloud and commerce and fulfillment businesses. Additionally, reorganization, integration, transition and acquisition-related charges increased \$4,388 versus the prior year primarily related to reorganization costs related to our 2015 actions.

The increase in our European operating margin of two basis points in the third quarter of 2015 compared to the third quarter of 2014 primarily reflects lower reorganization, integration, transition and acquisition-related costs of \$2,930 versus the prior year. Additionally, a better mix of higher advanced solutions and specialty sales was offset by further investment in building out capabilities in higher margin businesses, including mobility, and efforts to expand our cloud businesses into new countries in Europe.

Our Asia-Pacific operating margin decreased four basis points in the third quarter of 2015 compared to the third quarter of 2014 due to higher reorganization, integration and transition costs of \$6,309, or 26 basis points of Asia-Pacific net sales, as compared to the prior year. These declines were partially offset by our focus on growing higher margin advanced solutions sales which helped drive strong improvement in Australia, Singapore and the Middle East business.

The decrease in our Latin American operating margin of 54 basis points in the third quarter of 2015 compared to the third quarter of 2014 primarily reflects lower mobility contribution and a lower transitional contribution from acquired businesses in Peru and Chile where cost synergies are not expected to be fully realized until the fourth quarter of 2015. Other expense, net, consisted primarily of interest expense and income, foreign currency exchange losses and gains, and other non-operating gains and losses. We incurred other expenses of \$30,015 in the third quarter of 2015 compared to \$16,758 in the third quarter of 2014. The increase is primarily attributable to the foreign currency exchange loss of \$2,340 recorded in our Pan European purchasing entity in the current year compared to a gain of \$6,351 in this entity in the prior year. The increase also reflects incremental interest expense due to higher average interest rates as a result of the December 2014 issuance of \$500,000 of 4.95% senior unsecured notes due 2024, and higher currency losses due to volatility in the market globally and higher hedging costs.

We recorded an income tax provision of \$24,492, for an effective tax rate of 27.4%, in the third quarter of 2015 compared to \$30,723, or an effective tax rate of 29.8%, in the third quarter of 2014. The current quarter income tax provision includes a net benefit of \$1,945, or two percentage points, of the effective tax rate, primarily related to the release of unrealized tax benefits due to expiration of statute of limitations in various jurisdictions. The prior year income tax provision included a net benefit of \$6,618, or six percentage points, of the effective tax rate, driven primarily by the release of unrealized tax benefits due to the expiration of the statute of limitations in various tax jurisdictions. In addition, the prior year income tax provision included the negative impact of approximately one percentage point related to restructuring charges recorded in jurisdictions where there was no tax benefit realized. We currently expect our full year 2015 effective tax rate to be approximately 31%. However, effective tax rates may vary significantly depending on the actual operating results in the various tax jurisdictions, as well as changes in the valuation allowance related to the expected recovery of our deferred tax assets.

Table of Contents

Management's Discussion and Analysis Continued

Results of Operations for the Thirty-nine Weeks Ended October 3, 2015 Compared to the Thirty-nine Weeks Ended September 27, 2014

	Thirty-nine Weeks Ended			September 27, 2014		Change - Increase (Decrease)		
	October 3, 2015					Amount	Percentage	
Net sales by reporting segment								
North America	\$13,537,238	43	%	\$13,887,423	43	%	\$(350,185)	(2.5)%
Europe	8,857,752	28		10,077,384	31		(1,219,632)	(12.1)
Asia-Pacific	7,553,865	24		7,026,471	22		527,394	7.5
Latin America	1,764,729	5		1,539,930	5		224,799	14.6
Total	\$31,713,584	100	%	\$32,531,208	100	%	\$(817,624)	(2.5)%
	Thirty-nine Weeks Ended			September 27, 2014		Change - Increase (Decrease)		
	October 3, 2015					Amount	Percentage	
Operating income and operating margin by reporting segment								
North America	\$223,596							