

INGRAM MICRO INC
Form 10-Q
July 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2016

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 62-1644402
(State or other jurisdiction of incorporation or organization) (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)

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

The Registrant had 149,659,526 shares of Class A Common Stock, par value \$0.01 per share, outstanding at July 2, 2016.

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Part I. Financial Information

Item 1. Financial Statements

INGRAM MICRO INC.

CONSOLIDATED BALANCE SHEET

(In 000s, except par value)

(Unaudited)

	July 2, 2016	January 2, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 878,881	\$ 935,267
Trade accounts receivable (less allowances of \$66,747 and \$59,437 at July 2, 2016 and January 2, 2016, respectively)	5,131,473	5,663,754
Inventory	3,731,176	3,457,016
Other current assets	578,703	475,813
Total current assets	10,320,233	10,531,850
Property and equipment, net	381,884	381,414
Goodwill	952,254	843,001
Intangible assets, net	435,873	374,674
Other assets	169,437	169,750
Total assets	\$ 12,259,681	\$ 12,300,689
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,066,228	\$ 6,353,511
Accrued expenses	652,992	620,501
Short-term debt and current maturities of long-term debt	223,422	134,103
Total current liabilities	6,942,642	7,108,115
Long-term debt, less current maturities	1,091,437	1,090,702
Other liabilities	161,633	134,086
Total liabilities	8,195,712	8,332,903
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred Stock, \$0.01 par value, 25,000 shares authorized; no shares issued and outstanding	—	—
Class A Common Stock, \$0.01 par value, 500,000 shares authorized; 196,449 and 195,320 shares issued and 149,660 and 148,362 shares outstanding at July 2, 2016 and January 2, 2016, respectively	1,965	1,954
Class B Common Stock, \$0.01 par value, 135,000 shares authorized; no shares issued and outstanding	—	—
Additional paid-in capital	1,508,703	1,503,043
Treasury stock, 46,789 and 46,958 shares at July 2, 2016 and January 2, 2016, respectively	(890,096)	(892,925)
Retained earnings	3,569,652	3,513,101
Accumulated other comprehensive loss	(126,255)	(157,387)
Total stockholders' equity	4,063,969	3,967,786
Total liabilities and stockholders' equity	\$ 12,259,681	\$ 12,300,689

See accompanying notes to these consolidated financial statements.

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net sales	\$ 10,122,606	\$ 10,553,278	\$ 19,459,207	\$ 21,197,704
Cost of sales	9,403,660	9,896,453	18,108,565	19,923,418
Gross profit	718,946	656,825	1,350,642	1,274,286
Operating expenses:				
Selling, general and administrative	573,307	515,575	1,123,009	1,015,350
Amortization of intangible assets	25,621	17,089	52,646	33,020
Reorganization costs	7,690	6,236	24,256	10,276
Impairment of internally developed software	—	115,856	—	115,856
Loss on sale of affiliate	14,878	—	14,878	—
	621,496	654,756	1,214,789	1,174,502
Income from operations	97,450	2,069	135,853	99,784
Other expense (income):				
Interest income	(2,117	) (1,201	) (3,258	) (1,659
Interest expense	18,152	21,212	38,624	43,370
Net foreign currency exchange loss	587	6,738	9,114	14,276
Other	4,116	3,481	7,198	6,943
	20,738	30,230	51,678	62,930
Income (loss) before income taxes	76,712	(28,161	) 84,175	36,854
Provision for income taxes	22,060	6,132	27,624	27,872
Net income (loss)	\$ 54,652	\$ (34,293	) \$ 56,551	\$ 8,982
Basic earnings per share	\$ 0.37	\$ (0.22	) \$ 0.38	\$ 0.06
Diluted earnings per share	\$ 0.36	\$ (0.22) \$ 0.37	\$ 0.06

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(In 000s)

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net income (loss)	\$54,652	\$(34,293)	\$56,551	\$8,982
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(10,666)	(24,143)	31,132	(65,257)
Other comprehensive income (loss), net of tax	(10,666)	(24,143)	31,132	(65,257)
Comprehensive income (loss)	\$43,986	\$(58,436)	\$87,683	\$(56,275)

See accompanying notes to these consolidated financial statements.

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

	Twenty-six Weeks Ended July 2, 2016		July 4, 2015
Cash flows from operating activities:			
Net income	\$ 56,551		\$ 8,982
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	104,318		76,499
Stock-based compensation	19,908		17,529
Excess tax benefit from stock-based compensation	(8,351)	)	(4,149)
Gain on sale of property and equipment	(1,115)	)	(146)
Impairment of internally developed software	—		115,856
Loss on sale of affiliate	14,878		—
Noncash charges for interest and bond discount amortization	1,409		1,510
Deferred income taxes	10,494		6,117
Changes in operating assets and liabilities, net of effects of acquisitions:			
Trade accounts receivable	653,914		1,173,852
Inventory	(247,578)	)	328,530
Other current assets	(87,108)	)	(129,910)
Accounts payable	(235,962)	)	(860,437)
Change in book overdrafts	(166,027)	)	(84,010)
Accrued expenses	(86,032)	)	(23,299)
Cash provided by operating activities	29,299		626,924
Cash flows from investing activities:			

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Capital expenditures	(50,476)	(56,573)
Sale of marketable securities, net	4,700		—	
Proceeds from sale of property and equipment	590		359	
Proceeds from sale of affiliate	27,847		—	
Acquisitions, net of cash acquired	(173,406	)	(94,255)
Cash used by investing activities	(190,745	)	(150,469)
Cash flows from financing activities:				
Proceeds from exercise of stock options	3,538		6,267	
Repurchase of Class A Common Stock	—		(44,208)
Excess tax benefit from stock-based compensation	8,351		4,149	
Other consideration for acquisitions	(2,091	)	(2,358)
Net proceeds from (repayments of) revolving and other credit facilities	78,969		(353,784)
Cash provided (used) by financing activities	88,767		(389,934)
Effect of exchange rate changes on cash and cash equivalents	16,293		(12,806)
Increase (decrease) in cash and cash equivalents	(56,386	)	73,715	
Cash and cash equivalents, beginning of period	935,267		692,777	
Cash and cash equivalents, end of period	\$ 878,881		\$ 766,492	

See accompanying notes to these consolidated financial statements.

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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 July 2, 2016, our consolidated results of operations and comprehensive income (loss) for the thirteen and twenty-six weeks ended July 2, 2016 and July 4, 2015 and our consolidated cash flows for the twenty-six weeks ended July 2, 2016 and July 4, 2015. 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 2, 2016. The consolidated results of operations for the thirteen and twenty-six weeks ended July 2, 2016 may not be indicative of the consolidated results of operations that can be expected for the full year.

Book Overdrafts

Book overdrafts of \$262,601 and \$428,628 as of July 2, 2016 and January 2, 2016, respectively, represent checks issued on disbursement bank accounts but not yet paid by such banks. These amounts are classified as accounts payable in our consolidated balance sheet. We typically fund these overdrafts through normal collections of funds or transfers from other bank balances at other financial institutions. Under the terms of our facilities with the banks, the respective financial institutions are not legally obligated to honor the book overdraft balances as of July 2, 2016 and January 2, 2016, 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 July 2, 2016 and January 2, 2016, we had a total of \$303,625, and \$388,358, respectively, of trade accounts receivable sold to and held by financial institutions under these programs. Factoring fees of \$1,584 and \$995 incurred for the thirteen weeks ended July 2, 2016 and July 4, 2015, respectively, and \$2,913 and \$2,315 incurred for the twenty-six weeks ended July 2, 2016 and July 4, 2015, 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 in 2008. Since 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 concluded that this combined systems strategy is better aligned with our evolving business model and currently is more flexible and economical than implementation of a single global system. Accordingly, we 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.

Loss on the Sale of an Affiliate

During the thirteen weeks ended July 2, 2016, we sold our AVAD subsidiary for cash proceeds of \$27,847 as the niche operations were not deemed core to our current strategies and we believe that our operational focus and capital resources could be more effectively deployed elsewhere. As a result, we recorded a loss on the sale of affiliate of \$14,878, which included the write-off a previously acquired trade name of \$12,525. There were no additional impairments to our other intangible assets.

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Change in Accounting Principle and Reclassification

During the six months ended July 2, 2016, we adopted the provisions of Accounting Standards Update ("ASU") 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. Additionally, we also adopted 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". ASU 2015-15 allows debt issuance costs to be presented as an asset and amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. As a result of the adoption of these ASUs, our consolidated balance sheet as of January 2, 2016 reflects a \$6,571 reduction of other long-term assets and long-term debt, respectively, to conform to the current year presentation.

Note 2 – Plan of Merger

On February 17, 2016, we announced that we entered into an agreement and plan of merger (the "Merger Agreement") with Tianjin Tianhai Investment Company, Ltd. ("Tianjin Tianhai") a joint stock company existing under the laws of the People's Republic of China (the "PRC") and listed on the Shanghai Stock Exchange, and GCL Acquisition, Inc., a Delaware corporation and an indirect subsidiary of Tianjin Tianhai ("Merger Subsidiary"), pursuant to which, subject to the terms and conditions set forth in the Merger Agreement, Merger Subsidiary will be merged with and into Ingram Micro Inc. (the "Merger"), with Ingram Micro Inc. surviving as a subsidiary of Tianjin Tianhai. Concurrently with the execution of the Merger Agreement, HNA Group Co., Ltd., a limited company existing under the laws of the PRC ("HNA Group" or the "Guarantor"), an affiliate of Parent and Merger Subsidiary, has executed and delivered a guarantee (the "Guarantee") in favor of the Company. Pursuant to the Guarantee, the Guarantor has agreed to (i) guarantee Tianjin Tianhai's obligation to pay the Merger Consideration (as defined below) and any reverse termination fee in accordance with the terms of the Merger Agreement and (ii) assume the rights and obligations under the Merger Agreement in the event that the approval of Tianjin Tianhai's shareholders is not obtained in accordance with the terms of the Guarantee. The consummation of the Merger is subject to the satisfaction or permitted waiver of closing conditions set forth in the Merger Agreement and is expected to occur in the second half of 2016. Upon closing, we will become a part of HNA Group and will operate as a subsidiary of Tianjin Tianhai. We expect to continue to have our headquarters in Irvine, California and expect that our executive management team will remain in place, with Alain Monié continuing to lead as CEO.

At the effective time of the Merger, each share of Ingram Micro's Class A common stock issued and outstanding immediately before the closing, other than certain excluded shares, will be converted to the right to receive \$38.90 in cash, without interest (the "Merger Consideration"). Shares of Class A common stock held by Ingram Micro (other than shares in an employee stock plan of Ingram Micro) or any of its subsidiaries and shares owned by Tianjin Tianhai or any of its subsidiaries, and shares owned by stockholders who have properly exercised and perfected appraisal rights under Delaware law will not be entitled to receive the Merger Consideration.

The Merger Agreement requires that the Merger be approved by the holders of a majority of the outstanding shares of the Company's common stock as well as the vote of at least two-thirds of the voting stock held by the shareholders present at a meeting of Tianjin Tianhai's shareholders, excluding any shares held by HNA Group. If Tianjin Tianhai's shareholders do not approve the Merger, HNA Group will assume Tianjin Tianhai's rights and obligations under the Merger Agreement. In connection with the Merger process, the Merger Agreement was presented to and approved by Ingram Micro's shareholders at a special meeting on June 21, 2016. We are anticipating the Merger to be closed in the second half of 2016.

Consummation of the Merger is subject to other customary closing conditions and contains customary representations, warranties and covenants by each party. During the period between the signing of the Merger Agreement and the effective time of the Merger, Ingram Micro is required to operate its business in the ordinary course and consistent with past practice. Under the Merger Agreement, Ingram Micro shall not declare dividends or repurchase shares of its common stock and shall maintain an average of month-end cash and cash equivalents for the three month period prior to the closing in excess of US \$424,000. The Merger Agreement also requires that Ingram Micro abide by customary “no-shop” restrictions on its ability to solicit alternative acquisition proposals from third parties and to provide non-public information to and enter into discussions with third parties regarding alternative acquisition proposals. The Merger Agreement provides that Ingram Micro may not without the consent of Tianjin Tianhai (which consent shall not be unreasonably withheld) incur new debt or make new loans, except for (a) any indebtedness or guarantee incurred in the ordinary course of business consistent with past practice pursuant to Ingram Micro’s existing credit or banking facilities, trade accounts receivable backed financing programs or trade accounts receivable factoring

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

programs, (b) any refinancings, renewals or amendments in the ordinary course of business consistent with past practice of Ingram Micro's existing credit or banking facilities, trade accounts receivable backed financing programs or trade accounts receivable factoring programs, and (c) entering into any long-term committed facilities less than US \$100,000.

Note 3 – Stock Repurchase and Dividends

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 which was completely utilized in 2015. Our new \$300,000 share repurchase program expires on July 29, 2018, and had \$165,068 remaining for repurchase at July 2, 2016. Pursuant to the Merger Agreement, our share repurchase program has been discontinued effective February 17, 2016.

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 5, "Stock-Based Compensation").

Our treasury stock issuance activity for the twenty-six weeks ended July 2, 2016 is summarized in the table below:

	Shares	Weighted Average Price Per Share	Amount
Cumulative balance of treasury stock at January 2, 2016	46,958	\$ 19.02	\$892,925
Issuance of Class A Common Stock	(169)	16.74	(2,829)
Cumulative balance of treasury stock at July 2, 2016	46,789	\$ 19.02	\$890,096

Note 4 – 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.

The computation of Basic and Diluted EPS is as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Net income (loss)	\$54,652	\$(34,293)	\$56,551	\$8,982
Weighted average shares	148,904	156,329	148,659	156,292
Basic EPS	\$0.37	\$(0.22)	\$0.38	\$0.06
Weighted average shares, including the dilutive effect of stock-based awards (3,056 and 0 for the thirteen weeks ended July 2, 2016 and July 4, 2015,	151,960	156,329	151,733	159,549

respectively, and 3,074 and 3,257 for the twenty-six weeks ended July 2, 2016, and July 4, 2015, respectively)

Diluted EPS	\$0.36	\$(0.22))	\$0.37	\$0.06
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There were 0 and 2,755 stock-based awards for the thirteen weeks ended July 2, 2016 and July 4, 2015, respectively, and 5 and 2,431 stock based awards for the twenty-six weeks ended July 2, 2016, and July 4, 2015, 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. During the thirteen weeks ended July 4, 2015, there were 3,181 stock-based awards that were excluded from the computation of Diluted EPS as we recognized a net loss.

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Note 5 – Stock-Based Compensation

We currently have a single stock incentive plan, the 2011 Incentive Plan, amended during the second quarter of 2013, and again in the second quarter of 2016, for the granting of equity and cash-settled incentive awards. During the second quarter of 2016, our stockholders approved a second amendment of the 2011 Incentive Plan, which increased the number of shares that we may issue by 10,000. The authorized pool of shares available for grant is a fungible pool. The authorized share limit is reduced by one share for every share subject to a stock option or stock appreciation right granted and 2.37 shares for every share granted after June 8, 2011 (2.29 shares after June 7, 2013) under any award other than an option or stock appreciation right for 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. As of July 2, 2016, approximately 20,435 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.

Equity Awards

Equity awards granted under the 2011 Incentive Plan were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Stock options granted	—	839	5	839
Restricted stock and restricted stock units granted	405	1,329	493	1,347
Stock-based compensation expense	\$11,264	\$11,015	\$19,297	\$17,529
Related income tax benefit	\$3,657	\$3,632	\$6,445	\$5,813
Exercised stock options	18	332	162	370
Vested restricted stock and/or restricted stock units ^(a)	1,779	1,393	1,799	1,408

(a) Includes 412 and 1,015 shares, for the thirteen weeks ended July 2, 2016 and July 4, 2015, respectively, and 412 and 1,015 shares, for the twenty-six weeks ended July 2, 2016 and July 4, 2015, 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.

Cash Awards

On June 1, 2016 we granted 24,569 cash awards of which 12,285 and 12,284 are time-vested and performance-vested, respectively. Our time-vested cash awards vest over a time period of 3 years, and the performance-vested cash awards vest upon the achievement of a certain performance measure over a time period of 3 years. The performance measure for the cash awards for grants to management is based on earnings growth. Cash awards differ from the Company's other awards in that no shares will be issued and cumulative compensation expense is recognized as a liability rather than equity. For cash awards, total compensation costs is based on the fair value of the award on the date the award is granted and is remeasured at each reporting date until settlement. As of July 2, 2016, the unrecognized compensation costs related to the cash awards was \$18,501. We expect this cost to be recognized over a remaining weighted-average period of approximately 2.9 years. Cash awards granted under the 2011 Incentive Plan were as follows:

	Thirteen Weeks Ended	Twenty-six Weeks Ended
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	July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015
Cash awards granted	24,569	—	24,569	—
Compensation expense-cash awards	\$ 611	\$ —	—\$ 611	\$ —

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

Note 6 – 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	
	July 2, 2016	January 2, 2016	July 2, 2016	January 2, 2016
Derivatives not receiving hedge accounting treatment recorded in:				
Other current assets				
Foreign exchange contracts	\$988,899	\$1,669,296	\$6,508	\$54,133
Accrued expenses				
Foreign exchange contracts	1,125,976	618,961	(14,468)	(8,217)
Total	\$2,114,875	\$2,288,257	\$(7,960)	\$45,916

(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 gain (loss) as follows and was largely offset by the change in fair value of the underlying hedged assets or liabilities:

Thirteen Weeks Ended		Twenty-six Weeks Ended	
July 2, 2016	July 4, 2015	July 2, 2016	July 4, 2015

Net gain (loss) recognized in earnings \$30,818 \$(11,829) \$(26,152) \$91,894

Note 7 – 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 July 2, 2016, our assets and liabilities measured at fair value on a recurring basis are categorized in the table below:

	July 2, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents, consisting primarily of money market accounts and short-term certificates of deposit	\$359,901	\$359,901	\$—	\$—
Marketable trading securities ^(a)	47,772	47,772	—	—
Derivative assets	6,508	—	6,508	—
Total assets at fair value	\$414,181	\$407,673	\$6,508	\$—
Liabilities:				
Derivative liabilities	\$			