

DONALDSON CO INC
Form DEF 14A
September 28, 2007

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14A-6(E)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Donaldson Company, Inc.

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- (4) Proposed maximum aggregate value of transaction:
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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
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- (3) Filing Party:
- (4) Date Filed:

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DONALDSON COMPANY, INC.

**1400 West 94th Street
Minneapolis, Minnesota 55431-2370
www.donaldson.com**

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

TIME: 1:00 p.m. (CST) on Friday, November 16, 2007
PLACE: Donaldson Company, Inc. Corporate Offices, Campus West (new location) 2001 West 94th Street, Suite 103, Minneapolis, Minnesota 55431.

ITEMS OF BUSINESS: (1) To elect four directors;
(2) To ratify the appointment of PricewaterhouseCoopers LLP as Donaldson Company's independent registered public accounting firm to audit the Company's financial statements for the fiscal year ending July 31, 2008; and
(3) To transact other business that properly comes before the meeting.

RECORD DATE: You may vote if you are a stockholder of record at the close of business on September 21, 2007.
PROXY VOTING: It is important that your shares be represented and voted at the Annual Meeting. Please follow the instructions provided with your proxy card and promptly vote your proxy by telephone, internet or by signing and returning the enclosed proxy card. Your support is appreciated, and you are cordially invited to attend the Annual Meeting.

PLEASE PROMPTLY VOTE YOUR PROXY TO SAVE US THE EXPENSE OF ADDITIONAL SOLICITATION.

By Order of the Board of Directors

Norman C. Linnell
Secretary

Dated: October 5, 2007

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DONALDSON COMPANY, INC.

1400 West 94th Street
Minneapolis, Minnesota 55431

PROXY STATEMENT

Mailing Date: October 5, 2007

PROPOSALS YOU ARE ASKED TO VOTE ON

Item 1

Election of Directors

Four current directors, William M. Cook, Michael J. Hoffman, Willard D. Oberton and John P. Wiehoff, are recommended for election to the Board of Directors at the annual meeting. Information on the nominees is provided on page 7. Directors are elected for a three-year term so that approximately one-third are elected at each annual

meeting of stockholders.

The Board of Directors unanimously recommends a vote FOR the election of each director nominee.

Item 2

Ratification of the Appointment of Independent Registered Public Accounting Firm

The Audit Committee has selected PricewaterhouseCoopers LLP (PricewaterhouseCoopers LLP) as Donaldson Company s independent registered accounting firm to audit the Company s financial statements for fiscal year 2008, and is requesting ratification by the stockholders.

The Board of Directors unanimously recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as Donaldson Company s independent registered accounting firm to audit the Company s financial statements for fiscal year 2008.

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GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Q: Why did I receive this Proxy Statement?

A: Because the Board of Directors of Donaldson is soliciting proxies for use at the annual meeting to be held on November 16, 2007 and you are a Donaldson stockholder as of the close of business on the record date of September 21, 2007. Only stockholders of record are entitled to vote at the annual meeting and the Board of Directors is soliciting your proxy to vote at the meeting. We had 79,269,500 shares of common stock outstanding as of close of business on the record date. Each share entitles its holder to one vote, and there is no cumulative voting.

This Proxy Statement summarizes the information you need to know to vote. We first mailed the Proxy Statement and proxy card to stockholders on or about October 5, 2007.

Q: What am I voting on and what does the Board recommend?

A: 1. The election of four directors; and
2. The ratification of the appointment of our independent registered public accounting firm for fiscal year 2008.

THE BOARD RECOMMENDS A VOTE FOR EACH OF THE DIRECTORS AND FOR THE

RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

Q: How do I vote if I am a stockholder of record?

A: If you are a stockholder of record you may vote using any ONE of the methods set forth on your enclosed proxy card:

1. VOTE BY PHONE TOLL FREE 1-800-690-6903 QUICK *** EASY *** IMMEDIATE
2. VOTE BY INTERNET <http://www.proxyvote.com>
3. VOTE BY PROMPTLY MAILING YOUR PROXY CARD COMPLETE AND SIGN
4. VOTE BY CASTING YOUR VOTE IN PERSON AT THE MEETING

If you participate in the Donaldson Dividend Reinvestment Program open to all stockholders and administered by the transfer agent, your shares in that program have been added to your other holdings and are included on your proxy card.

If you participate in the Donaldson Employee Stock Purchase Program administered by the transfer agent, your shares in that program have been added to your other holdings and are included on your proxy card.

Q: How do I vote if I hold stock through a Donaldson employee benefit plan?

A: We have added the shares of common stock held by participants in Donaldson's employee benefit plans to the participants' other holdings shown on their proxy cards. Donaldson's employee benefit plans are the Employee Stock Ownership Plan, the PAYSOP, and the Donaldson Company, Inc. Retirement Savings Plan (the 401(k) Plan).

If you hold stock through Donaldson's employee benefit plans, voting your proxy using one of methods 1-3 above also serves as confidential voting instructions to the plan trustee, Fidelity Management Trust Company (Fidelity). Fidelity will vote your employee benefit plan shares as directed by you provided that your proxy vote is **RECEIVED BY NOVEMBER 13, 2007**.

Fidelity also will vote the shares allocated to individual participant accounts for which it has not received instructions, as well as shares not so allocated, in the same proportion as the directed shares are voted.

Q: How do I vote if my shares are held in a brokerage account in my broker's name (i.e., street name)?

A: If your shares are held in a brokerage account in your broker's name (street name), you should follow the voting directions provided by your broker or nominee. If you do so, your broker or nominee will vote your shares as you have directed.

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Q: What does it mean if I receive more than one proxy card?

A: It means that you have multiple accounts with banks or stockbrokers or with the transfer agent. PLEASE VOTE ALL OF YOUR SHARES.

Q: What if I change my mind after I vote my shares?

A: You can revoke your proxy at any time before it is voted at the meeting by:

1. Sending written notice of revocation to the Company Secretary;
2. Submitting a properly signed proxy card with a later date;
3. Voting by telephone or internet at a time following your prior telephone or internet vote; or
4. Voting in person at the annual meeting.

Q: How are the votes counted?

A: For item (1), the election of directors, you may 1) vote for all of the nominees, 2) withhold your vote from all of the nominees or 3) withhold your vote from a specifically designated nominee. For item (2), the ratification of the appointment of our independent registered public accounting firm, you may vote (or abstain) by choosing For, Against or Abstain.

If you abstain from item (2), your shares will be counted as present at the meeting for the purposes of determining a quorum, and they will be treated as shares not voted on the specific proposal.

If you hold shares in street name and do not provide voting instructions to your broker, your broker will not vote your shares on any proposal where the broker does not have discretionary authority to vote. In such a situation, the shares will be considered present at the meeting for purposes of determining a quorum, but will not be considered to be represented at the meeting for purposes of calculating the vote with respect to the matter requiring discretionary authority. New York Stock Exchange Rules permit brokers discretionary authority to vote on items (1) and (2), if they do not receive instructions from the street name holder of the shares. As a result, if you do not vote your street name shares, your broker has authority to vote on your behalf.

We use an independent inspector of elections, Broadridge Investor Communication Solutions, Inc. which tabulates the votes received.

Q: What if I do not specify how I want my shares voted?

A: If you do not specify on your returned proxy card or through the telephone or internet prompts how you want to vote your shares, they will be voted FOR the election of all director nominees, and FOR the ratification of the appointment of the independent registered public accounting firm.

Q: How many shares must be present to hold the meeting?

A: A quorum must be present for the meeting to be valid. This means that at least a majority of the shares outstanding as of the record date must be present. We will count you as present if you:

1. Have properly voted your proxy by telephone, internet or mailing of the proxy card; or
2. Are present and vote in person at the meeting.

Q: How many votes are needed to approve each item?

A: The vote of a plurality of the shares of common stock present or represented and entitled to vote at the meeting is required for election as a director. This means that, since stockholders will be electing four directors, the four nominees receiving the most votes will be elected. Ratification of the appointment of the independent registered public accounting firm requires the affirmative vote of a majority of shares entitled to vote and represented at the meeting in person or by proxy.

Q: How will voting on any other business be conducted?

A: We do not know of any business to be considered at the 2007 Annual Meeting of Stockholders other than the proposals described in this Proxy Statement. If any other business is properly presented at the annual meeting, your shares will be voted by the holders of the proxies in their discretion.

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Q: Who may attend the meeting?

A: All Donaldson stockholders of record as of the close of business on September 21, 2007 may attend.

Q: Where do I find the voting results of the meeting?

A: We will publish the voting results in our Form 10-Q for the second quarter of fiscal 2008 to be filed with the Securities and Exchange Commission.

Q: How do I submit a stockholder proposal?

A: If you wish to include a proposal in the Company's Proxy Statement for its 2008 Annual Meeting of Stockholders, you must submit the proposal in writing so that it is received no later than June 7, 2008. Please send your proposal to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299.

Under our bylaws, if you wish to nominate a director or bring other business before the stockholders at our 2008 annual meeting without having your proposal included in our Proxy Statement:

» You must notify the Company Secretary of Donaldson Company, Inc. in writing between July 19, 2008 and August 18, 2008.

» Your notice must contain the specific information required in our bylaws. If you would like a copy of our bylaws, we will send you one without charge. Please write to the Company Secretary at the address shown above.

Q: Who pays for the cost of proxy preparation and solicitation?

A: Donaldson pays for the cost of proxy preparation and solicitation, including the reasonable charges and expenses of brokerage firms, banks or other nominees for forwarding proxy materials to street name holders. We are soliciting proxies primarily by mail. In addition, our directors, officers and regular employees may solicit proxies by email, telephone or facsimile or personally. These individuals will receive no additional compensation for their services other than their regular salaries.

SECURITY OWNERSHIP

Set forth below is information regarding persons known by the Company to own beneficially more than 5% of the outstanding Common Stock of the Company based on the number of shares of Common Stock outstanding on September 21, 2007:

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Columbia Wanger Asset Management, L.P. 227 West Monroe Street Suite 3000 Chicago, IL 60606	4,456,600(2)	5.6

(1) Fidelity Management Trust Company, as the trustee of the Company's Retirement Savings Plan - 401(k) Profit Sharing and ESOP/PAYSOP Plan, held 6,400,907 shares, or 8.1%, of the Company's common stock as of

September 21, 2007. Fidelity disclaims beneficial ownership of the shares claiming that it holds the shares solely for the benefit of the employee participants, and that it does not have the power to vote or dispose of those shares except as directed by the employee participants. Fidelity's business address is 82 Devonshire Street, Boston, MA, 02109.

- (2) Based on information provided in a Schedule 13G filed with the Securities and Exchange Commission on January 12, 2007, Columbia Wanger Asset Management, L.P., an investment advisor, reported that it has sole power to dispose of or direct the disposition of 4,456,600 shares, sole power to vote or direct the vote of 4,256,000 shares and shared power to vote or direct the vote of 200,000 shares.

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The following table shows information regarding the beneficial ownership of the Company's common stock and information concerning deferred restricted stock units, deferred share units under stock option exercises and phantom stock units, as of September 21, 2007, by each director, each of the Named Executive Officers (as identified on page 26) and all executive officers and directors of the Company as a group. The definition of beneficial ownership includes (i) shares over which a person has sole or shared voting power, or sole or shared power to invest or dispose of the shares, whether or not a person has any economic interest in the shares; (ii) deferred stock units that have vested and been deferred, as to which the beneficial owner has no voting or investment power; and (iii) shares subject to options exercisable within 60 days of September 21, 2007. Except as otherwise indicated, the named beneficial owner has sole voting and investment power with respect to the shares held by such beneficial owner.

Name of Beneficial Owner	Total Amount and Nature of Beneficial Ownership of Common Shares				Percent of Common Shares	Deferred Stock Units Included in Total Amount Column (3)	Exercisable Options Included in Total Amount Column
	(1)	(2)	(3)	(4)			
William M. Cook				909,401	1.1	199,172	521,087
Thomas R. VerHage				100,519	*	28,278	52,000
Lowell F. Schwab				441,682	*	31,831	218,251
Charles J. McMurray				130,515	*	5,063	79,500
Geert Henk Touw				144,390	*	5,675	64,000
Jack W. Eugster				105,781	*		55,374
Janet M. Dolan				107,812	*		72,800
F. Guillaume Bastiaens				88,824	*		72,800
John F. Grundhofer				77,754	*		28,800
Jeffrey Noddle				66,552	*		50,400
Paul D. Miller				52,278	*		43,200
John P. Wiehoff				36,300	*		28,800
Michael J. Hoffman				17,920	*		14,400
Willard D. Oberton				8,835	*		7,200
Directors and Executive Officers as a Group				2,784,504	3.5	293,399	1,606,867

*Less than 1%

- (1) Includes all beneficially owned shares, including restricted shares, shares for non-employee directors held in trust, shares underlying the units listed under the Deferred Stock Units column and the shares underlying options exercisable within 60 days, as listed under the Exercisable Options column.
- (2) Includes the following shares held in the Employee Stock Ownership and Retirement Savings Plan trust: Cook, 43,412 shares; VerHage, 397 shares; Schwab, 21,379 shares; McMurray, 20,851 shares; Touw, 49,632 shares. Voting of shares held in the Employee Stock Ownership and Retirement Savings Plan trust is passed through to the participants. Also includes the following shares held in the Deferred Compensation and 401(k) Excess Plan trust: Cook, 9,804 shares; VerHage, 1,844 shares; Schwab, 5,893 shares; McMurray, 1,058 shares; Touw, 3,270 shares. Voting of shares held in the Deferred Compensation and 401(k) Excess Plan trust is passed through to the participants.
- (3) Deferred stock units that have vested and been deferred are included in the beneficial ownership totals and in the percent of ownership (columns 1 and 2) however, the beneficial owner has no voting or investment power. The Deferred Stock Units column includes phantom stock units allocated to employees earning in excess of the limits established by the Internal Revenue Code for the qualified Employee Stock Ownership Plan that distributed shares in trust for employees during the period from 1987 to 1996. ESOP phantom stock units are held by the Named Executive Officers in the following amounts: Cook, 5,352 units; VerHage, 0 units; Schwab, 6,435 units; McMurray, 0 units; Touw, 5,675 units; all directors and officers as a group, 19,054 units.

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The Deferred Stock Units column also includes deferred restricted stock units under the Deferred Compensation and 401(k) Excess Plan. Deferred restricted stock units are held by the Named Executive Officers in the following amounts: Cook, 25,197 units; VerHage, 0 units; Schwab, 0 units; McMurray, 0 units; Touw, 0 units; all directors and officers as a group, 25,197 units.

The Deferred Stock Units column also includes deferred stock units under the Deferred Compensation and 401(k) Excess Plan for exercises of stock options where the executive has previously elected to defer the receipt of the underlying shares. Deferred stock option gain units are held by the Named Executive Officers in the following amounts: Cook, 84,712 units; VerHage, 0 units; Schwab, 0 units; McMurray, 0 units; Touw, 0 units; all directors and officers as a group, 84,712 units.

The Deferred Stock Units column also includes deferred stock units under the Deferred Compensation and 401(k) Excess Plan for deferral of shares awarded under the long term compensation plan under the 1991 Master Stock Compensation Plan and 2001 Master Stock Incentive Plan, where the executive has previously elected to defer the receipt of the underlying shares. Deferred stock units are held by the Named Executive Officers in the following amounts: Cook, 83,911 units; VerHage, 28,278 units; Schwab, 25,396 units; McMurray, 5,063 units; Touw, 0 units; and all directors and officers as a group, 164,436 units.

- (4) Includes the following shares held in the non-employee director's deferred stock account trust: Eugster, 24,131 shares; Dolan, 22,154 shares; Bastiaens, 6,714 shares; Grundhofer, 19,877 shares; Noddle, 14,722 shares; Miller 8,678 shares; Wiehoff, 7,300 shares; Hoffman 3,520; and Oberton, 635 shares. Voting of shares held in the deferred stock account trust is passed through to the participants.
- (5)

Includes 27,237 shares held in a trust of which Mr. Grundhofer is a trustee and has shared voting and investment power.

ITEM 1: ELECTION OF DIRECTORS

The bylaws of the Company provide that the Board of Directors shall consist of not less than three nor more than fifteen directors and that the number of directors may be fixed from time to time by the affirmative vote of a majority of the directors. The Board of Directors has fixed the number of directors constituting the entire Board at ten. Vacancies and newly created directorships resulting from an increase in the number of directors may be filled by a majority of the directors then in office and the directors so chosen will hold office until the next election of the class for which such directors shall have been chosen and until their successors are elected and qualified. Directors are elected for a term of three years with positions staggered so that approximately one-third of the directors are elected at each annual meeting of the stockholders. The terms of Mr. Cook, Mr. Hoffman, Mr. Oberton and Mr. Wiehoff expire at the annual meeting.

The Board of Directors has no reason to believe that any nominees will be unavailable or unable to serve, but in the event any nominee is not a candidate at the meeting, the persons named in the enclosed proxy intend to vote in favor of the remaining nominees and such other person, if any, as they may determine.

The Board of Directors recommends that stockholders vote **FOR** the election of each director nominee.

The table on the following page sets forth additional information with respect to each nominee for election as a director and each other person whose term of office as a director will continue after the meeting.

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Name	Principal Occupation and Business Experience
Terms Expiring in 2007:	
William M. Cook Age 54 Director since 2004	Chairman (2005), Chief Executive Officer and President of the Company since August 2004. Previously, Senior Vice President and Chief Financial Officer (2001-2004); Senior Vice President, International; and Senior Vice President, Commercial and Industrial (1996-2000).
Michael J. Hoffman Age 52 Director since 2005	Chairman (2007), Chief Executive Officer (2005) and President (2004) of The Toro Company, a provider of outdoor maintenance and beautification products. Previously, Group Vice President (2001-2004); Vice President and General Manager (2000-2001).

Name	Principal Occupation and Business Experience
Willard D. Oberton Age 49 Director since 2007	Chief Executive Officer (2002) and President (2001) of Fastenal Company, an industrial and construction supplies company. Previously, Chief Operating Officer (1997-2002) and Executive Vice President (2000-2001).
John P. Wiehoff Age 46 Director since 2003	Chairman (2007), Chief Executive Officer (2002) and President (1999) of C.H. Robinson Worldwide, Inc. transportation, logistics and sourcing company. Also a director of Polaris Industries, Inc.

Name	Principal Occupation and Business Experience
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Terms Expiring in 2008:

F. Guillaume Bastiaens Age 64 Director since 1995	Vice Chairman (1998) of Cargill, Inc., a provider of food, agricultural and risk management products and services. Also a director of The Mosaic Company.
Janet M. Dolan Age 57 Director since 1996	President of Act III Enterprises, a consulting firm. Retired Chief Executive Officer (1999-2005) and President (1998-2005) of Tennant Company, a manufacturer of indoor and outdoor cleaning solutions and specialty coatings. Also, a director of The St. Paul Travelers Companies, Inc.
Jeffrey Noddle Age 61 Director since 2000	Chairman, Chief Executive Officer and President of SUPERVALU INC., a food retailer and provider of distribution and logistics support services, since 2002. Previously, Chief Executive Officer and President of SUPERVALU from 2001 to 2002. Also a director of Ameriprise Financial, Inc.

Name	Principal Occupation and Business Experience
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Terms Expiring in 2009:

Jack W. Eugster Age 61 Director since 1993	Retired Non-Executive Chairman (2001-2005) of Shopko Stores, Inc., a retail products company. Retired Chairman, Chief Executive Officer and President (1986-2001) of Musicland Stores Corporation, a retail consumer products company. Also a director of Graco, Inc. and Black Hills Corporation.
John F. Grundhofer Age 68 Director since 1997	Retired Chairman (1990-1997 and 1999-2002), Chief Executive Officer (1990-2001) and President (1990-1999 and 2000-2001) of U.S. Bancorp, a financial services provider. Also a director of Securian Financial Group, Inc. and BJ's Restaurants, Inc.
Admiral Paul David Miller Age 65 Director since 2001	Retired Chairman of ATK (Alliant Techsystems Inc.), an aerospace and defense company. Previously, Chairman (1999-2004) and Chief Executive Officer (1999-2003) and President of ATK (2000-2001). Prior to his retirement from the U.S. Navy following a 30-year career, Admiral Miller served as Commander-in-Chief, U.S. Atlantic Command and NATO Supreme Allied Commander-Atlantic. Also a director of Teledyne Technologies, Incorporated.

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CORPORATE GOVERNANCE

Board Oversight and Director Independence

Donaldson's Board believes that a primary responsibility of the Board of Directors is to provide effective governance over Donaldson's business. The Board selects the Chairman of the Board and the Chief Executive Officer

and monitors the performance of senior management to whom it has delegated the conduct of the business. The Board has adopted a set of Corporate Governance Guidelines to assist in its governance, and the complete text of Donaldson's Corporate Governance Guidelines is available on the Investor Relations page of our website at www.donaldson.com under Corporate Governance.

Our Corporate Governance Guidelines provide that a significant majority of our directors will be non-employee directors who meet the independence requirements of the New York Stock Exchange (NYSE). The listing standards of the NYSE require that a majority of our directors be independent, and that our Corporate Governance, Audit and Human Resources Committees be comprised entirely of independent directors.

The Board has established the following independence standards consistent with the current listing standards of the NYSE for determining independence:

A director will not be considered independent if, within the preceding three years:

- The director was an employee of Donaldson, or an immediate family member of the director was an executive officer of Donaldson;
- The director or an immediate family member of the director has received during any 12-month period more than \$100,000 in direct compensation from us (other than director and committee fees and pension or other forms of deferred compensation for prior service to us);
- An executive officer of Donaldson was on the compensation committee of a company which, at the same time, employed the director or an immediate family member of the director as an executive officer; or
- The director was an executive officer or employee of, or an immediate family member of the director was an executive officer of, another company that does business with us and the annual revenue derived from that business by either company exceeds the greater of (i) \$1,000,000 or (ii) 2% of the annual gross revenues of such company.

A director will not be considered independent if:

- The director or an immediate family member of the director has been affiliated with or employed in a professional capacity by our independent registered public accounting firm within the past three years.

The Board has reviewed the transactions between each of our non-employee directors and the Company, including those companies where directors serve as an officer. Each of those transactions was significantly below the thresholds and all were in the ordinary course of business. Based on this review, the Board has determined that every director, with the exception of Mr. Cook who is an employee director, has no material relationship with Donaldson, satisfies all of the categorical standards of independence in our Board approved independence standards and is independent. The Board also has determined that every member of its Corporate Governance, Audit and Human Resources Committees is an independent director. In making the independence determinations, the Board reviewed all of the directors' relationships with the Company based primarily on a review of the responses of the directors to questions regarding employment, business, familial, compensation and other relationships with the Company and its management.

Policy and Procedures Regarding Transactions with Related Persons

Our Board of Directors, upon the recommendation of the Corporate Governance Committee, has adopted a written Related Person Transaction Policy. This policy delegates to our Audit Committee responsibility for reviewing, approving or ratifying transactions with certain related persons that are required to be disclosed under the rules of the SEC. Under the policy, a related person includes any of the directors or executive officers of the Company, certain stockholders and members of their immediate family.

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Our Related Person Transaction Policy applies to transactions that involve a related person where we are a participant and the related person has a material direct or indirect interest. Certain types of transactions have been evaluated and preapproved by the Board under the policy:

Any transaction in the ordinary course of business in which the aggregate amount involved will not exceed \$100,000;

Any transaction where the related person's interest arises solely from being a shareholder and all shareholders receive the same benefit on a pro rata basis;

Any transaction with another company at which a related person's only relationship is as an employee, director or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of (i) \$500,000 or (ii) 1% of that company's or Donaldson's total annual revenues.

Meetings and Committees of the Board of Directors

There were six meetings of the Board of Directors in 2007. Each director attended at least 75% of the aggregate of all meetings of the Board and its committees on which she or he served during the year. It also is our policy that directors are expected to attend our annual stockholder meetings. All individuals then serving as directors attended last year's annual meeting of stockholders, with the exception of two directors.

The Board of Directors has three committees:

Audit Committee

Human Resources Committee

Corporate Governance Committee

Each of the Board committees has a written charter, approved by the Board, establishing the authority and responsibilities of the committee. Each committee's charter is posted on the Investor Relations page of our website at www.donaldson.com under the "Corporate Governance" caption and is available in print to stockholders who mail a request to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299 or call 952-887-3631. The following tables provide a summary of each committee's key areas of oversight, the number of meetings of each committee during the last fiscal year and the names of the directors currently serving on each committee.

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Audit Committee

Responsibilities

- Appoints and replaces the independent registered public accounting firm, and oversees the work of the independent auditor.
- Pre-approves all auditing services and permitted non-audit services to be performed by the independent auditor, including related fees.
- Reviews with management and the independent auditor our annual audited financial statements and recommends to the Board whether the audited financial statements should be included in Donaldson's Annual Report on Form 10-K.
- Reviews with management and the independent auditor our quarterly financial statements and the associated earnings news releases.
- Reviews with management and the independent auditor significant reporting issues and judgments relating to the preparation of our financial statements, including internal controls.
- Reviews with the independent auditor our critical accounting policies and practices and major issues regarding accounting principles.
- Reviews the appointment, performance and replacement of the senior internal audit executive and reviews the CEO and CFO's certification of internal controls and disclosure controls.
- Reviews Donaldson's compliance programs and procedures for the receipt, retention and handling of complaints regarding accounting, internal controls and auditing matters.

Human Resources Committee

Responsibilities

- Reviews and approves the CEO's compensation, leads an annual evaluation of the CEO's performance and determines the CEO's compensation based on this evaluation.
- Reviews and approves executive compensation plans and all equity-based plans.
- Reviews and approves incentive compensation goals and performance measurements applicable to our executive officers.
- Reviews and recommends the Compensation Discussion and Analysis be included in the Company's Proxy Statement and Form 10-K.

Number of Meetings in**2007: 8****Directors who serve on the committee:** Jack W. Eugster,
Chair

Janet M. Dolan

Michael J. Hoffman

Paul David Miller

Jeffrey Noddle

John P. Wiehoff

Number of meetings in**2007: 3****Directors who serve on the committee:** Jeffrey Noddle,
Chair

F. Guillaume Bastiaens

Jack W. Eugster

John F. Grundhofer

John P. Wiehoff

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Corporate Governance Committee

Responsibilities

- Reviews and establishes the process for the selection of director candidates and director qualification standards.
- Reviews and establishes the process for the consideration of director candidates recommended by stockholders and recommends candidates for election to the Board.
- Reviews and recommends the size and composition of the Board.
- Reviews and recommends the size, composition and responsibilities of all Board committees.
- Reviews and recommends policies and procedures to enhance the effectiveness of the Board, including those in the Corporate Governance Guidelines.
- Oversees the annual Board's self-evaluation process.
- Reviews and recommends to the Board the compensation paid to the independent, non-employee directors.

Corporate Governance Guidelines

Our Board has adopted a set of Corporate Governance Guidelines to assist it in carrying out its oversight responsibilities. These guidelines address a broad range of topics, including director qualifications, director nomination processes, term limits, Board and committee structure and process, Board evaluations, director education, CEO evaluation, management succession planning and conflicts of interest. The complete text of the guidelines is available on the Investor Relations page of our website at www.donaldson.com under the Corporate Governance caption and is available in print to stockholders who mail a request to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299 or call 952-887-3631.

Code of Business Conduct and Ethics

All of our directors and employees, including our chief executive officer, chief financial officer, chief accounting officer and other senior executives, are required to comply with our code of business conduct and ethics to help ensure that our business is conducted in accordance with the highest standards of legal and ethical behavior. Employees are required to bring any violations and suspected violations of the code to Donaldson's attention through management, Donaldson's Compliance Committee or Donaldson's legal counsel, or by using our confidential compliance hotline.

The full text of our code of business conduct and ethics is posted on the Investor Relations page of our website at www.donaldson.com under Corporate Governance and is available in print to stockholders who mail a request to the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299 or call 952-887-3631.

Board Composition and Qualifications

Our Corporate Governance Committee oversees the process for identifying and evaluating candidates for the Board of Directors. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the stockholders. General and specific guidelines for director selection and qualification standards are detailed in the Corporate Governance Guidelines. The Corporate Governance Committee will consider nominations from stockholders under these standards if the nominations are timely received as described in this proxy statement.

Director Selection Process

The bylaws of the Company provide that the Board of Directors shall consist of not less than three nor more than

**Number of meetings in
2007: 2**

**Directors who serve on the
committee:** John F.
Grundhofer, Chair
F. Guillaume Bastiaens
Janet M. Dolan
Michael J. Hoffman
Paul David Miller
Willard D. Oberton

fifteen directors and that the number of directors may be fixed from time to time by the affirming vote of a majority of the directors. The Board of Directors has fixed the number of directors constituting the

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entire Board at ten. Vacancies and newly created directorships resulting from an increase in the number of directors may be filled by a majority of the directors then in office and the directors so chosen will hold office until the next election of the class for which such directors shall have been chosen and until their successors are elected and qualified. Directors are elected for a term of three years with positions staggered so that approximately one-third of the directors are elected at each annual meeting of the stockholders. Based on advice from the Corporate Governance Committee, each year the Board will recommend a slate of directors to be presented for election at the annual meeting of stockholders.

The Corporate Governance Committee will consider candidates submitted by members of the Board, executives and our stockholders, and the Committee will review such candidates in accordance with our bylaws, Corporate Governance Guidelines and applicable legal and regulatory requirements. The Corporate Governance Committee's process includes the consideration of the qualities listed in the Corporate Governance Guidelines, including that Directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the shareholders. In recommending candidates for nomination by the Board as a Director of Donaldson, the Corporate Governance Committee will consider appropriate criteria including current or recent experience as a Chairman of the Board, Chief Executive Officer or other senior executive officer; business expertise and diversity; and general criteria such as independence, ethical standards, a proven record of accomplishment, and the ability to provide valuable perspectives and meaningful oversight. Candidates recommended by stockholders are evaluated in accordance with the same criteria and using the same procedures as candidates submitted by Board members or the chief executive officer.

Our bylaws provide that if a stockholder proposes to nominate a candidate at the annual meeting of stockholders, the stockholder must give written notice of the nomination to our Corporate Secretary in compliance with the applicable deadline for submitting stockholder proposals for the applicable annual meeting. The stockholder must attend the meeting in person or by proxy. The stockholder's notice must set forth as to each nominee all information relating to the person whom the stockholder proposes to nominate that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected). No stockholders submitted director nominations in connection with this year's meeting.

Independent Director Executive Sessions and Evaluations

The Chair of our Corporate Governance Committee, John F. Grundhofer, currently is designated to preside over all meetings or executive sessions of the independent directors. Our independent directors meet in executive session without management present at each Board meeting. Likewise, all Board committees regularly meet in executive session without management. The Board and each Committee conducted an evaluation of its performance in fiscal 2007.

Communications with Directors

The Donaldson Company Compliance Hotline is in place for our employees and others to direct their concerns to the Audit Committee, including on a confidential and anonymous basis, regarding accounting, internal accounting

controls and auditing matters.

In addition, we have adopted procedures for our stockholders, employees and other interested parties to communicate with the independent members of the Board of Directors. You should communicate by writing to the Chair of the Audit Committee, the Chair of the Corporate Governance Committee or the independent directors as a group in the care of the office of the Company Secretary, Donaldson Company, Inc., MS 101, P.O. Box 1299, Minneapolis, MN 55440-1299.

Written communications about accounting, internal accounting controls and auditing matters should be addressed to the Chair of the Audit Committee. Please indicate if you would like your communication to be kept confidential from management. The procedures for communication with the Board of Directors also are posted on the Investor Relations page of our website at www.donaldson.com under Corporate Governance.

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Audit Committee Expertise; Complaint-Handling Procedures

In addition to meeting the independence requirements of the NYSE and the Securities and Exchange Commission (SEC), all members of the Audit Committee have been determined by the Board to meet the financial literacy requirements of the NYSE's listing standards. The Board also has designated John P. Wiehoff as the audit committee financial expert as defined by SEC regulations.

In accordance with federal law, the Audit Committee has adopted procedures governing the receipt, retention and handling of complaints regarding accounting and auditing matters. These procedures include a means for employees to submit concerns on a confidential and anonymous basis, through Donaldson's compliance hotline.

DIRECTOR COMPENSATION

Annual compensation for our non-employee directors is designed to attract and retain highly qualified non-employee directors and to provide equity based compensation in order to tie director compensation to our shareholders' interests. Directors are subject to a stock ownership requirement to own shares equal to five times their annual retainer within five years of their election as a director. Non-employee director compensation is comprised of annual retainers, meeting fees and an annual stock option grant.

Our Corporate Governance Committee assists the Board of Directors in providing oversight on director compensation. The Committee oversees, reviews and reports to the Board on director compensation. The Corporate Governance Committee annually reviews competitive market data for non-employee director compensation and makes recommendations to the Board of Directors for its approval. The Committee is assisted in performing its duties by our Human Resources Department, and when needed, outside executive compensation consultants. The Committee has engaged Towers Perrin to conduct a review of the director compensation program in the fall of 2007.

During the annual review of director compensation, the Committee reviews competitive market data from a peer group which currently is drawn from public companies with corporate headquarters in Minnesota that have annual revenues greater than Donaldson's. The components of non-employee director compensation are described in the following sections.

Annual Retainer

Non-employee directors receive an annual retainer of \$38,000. Thirty percent of the annual retainer is automatically deferred into a deferred stock account. The number of shares of stock deferred is equal to the amount of the retainer deferred divided by the stock price on the date of the retainer payment, which is January 1st. The remainder of the retainer is paid in cash unless the director elects, prior to the year the retainer is paid, to defer all or a portion of the remaining retainer into the Donaldson Company, Inc. Compensation Plan for Non-Employee Directors.

The Audit Committee Chair receives an annual retainer of \$10,000. The Human Resources Committee Chair receives an annual retainer of \$8,500 (increased from \$7,500 effective January 1, 2008) and the Corporate Governance Committee Chair receives an annual retainer of \$7,500. These retainers are also paid in cash unless the director elects to defer all or a portion of the retainer into the Donaldson Company, Inc. Compensation Plan for Non-Employee Directors.

Meeting Fees

Non-employee directors receive \$2,500 for each Board meeting attended. Members of the Audit Committee receive \$1,500 for each Audit Committee meeting attended and the members of the Human Resources Committee and Corporate Governance Committee receive \$1,000 for each committee meeting attended. Non-employee directors can elect to receive the fees in cash, deferred cash or deferred stock.

Stock Options

The Company's Non-Qualified Stock Option Program for Non-Employee Directors provides an annual grant of a non-qualified stock option of 7,200 shares of Common Stock to each non-employee director who is a member of the Board on January 1 of each year. The annual grant date in Fiscal 2007 was December 1, 2006 and has been changed to a January 1 annual grant date starting in 2008. The grant price is the closing

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stock price on the date of grant. The options are fully vested at the date of grant and have a ten year term. The option awards granted from 1998 through 2004 include a reload option that has the same features as the reload options granted to executive officers. The reload grant features are described in the Compensation and Discussion Analysis section under the Stock Option description.

Deferred Compensation

The Company sponsors the Donaldson Company, Inc. Compensation Plan for Non-Employee Directors, a non-qualified deferred compensation plan. The Plan permits the Directors to elect to receive their annual retainers and meeting fees in one or more of the following methods:

In cash on a current basis;

In cash on a deferred basis (deferred cash account); or

In Company stock on a deferred basis (deferred stock account).

Any amount deferred into a deferred cash account will be credited with interest at a rate equal to the ten-year treasury bills rate plus two percent.

The amounts deferred into a deferred stock account will be credited with any quarterly dividends paid on the Company's Common Stock. The Company contributes shares in an amount equal to the deferred stock accounts to a trust and a director is entitled to direct the trustee to vote all shares allocated to the director's account. The Common Stock will be distributed to each director following retirement pursuant to the director's deferral payment election. The trust assets remain subject to the claims of the Company's creditors, and become irrevocable in the event of a Change in Control as defined under the 1991 Master Stock Compensation Plan and the 2001 Master Stock Incentive Plan.

The Fiscal 2007 compensation for our non-employee directors is shown in the following table.

DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (1)(\$)	Stock Awards (2)(\$)	Option Awards (3)(\$)	Non-qualified Deferred Compensation Earnings (4)(\$)	All Other Compensation (5)(\$)	Total (\$)
F. Guillaume Bastiaens	45,600	10,448	79,348		3,208	138,604
Janet M. Dolan		67,847	79,348		1,749	148,944
Jack W. Eugster	12,000	67,502	79,348	965	4,626	164,441
John F. Grundhofer		58,872	79,348		662	138,882
Michael J. Hoffman		65,834	79,348			145,182
Paul David Miller	31,500	34,842	79,348			145,690
Jeffrey Noddle		72,399	79,348			151,747
Willard D. Oberton	39,167	14,062	79,348			132,577
John P. Wiehoff		68,843	79,348			148,191

- (1) These directors elected to receive cash for all or a portion of the 70% of the annual retainer, the additional retainer for directors who chair a Board committee and the meeting fees paid to non-employee directors, all of which are payable in cash or in a deferred stock award. Mr. Eugster elected to defer the receipt of his \$12,000 cash earned for Committee retainer fees. The deferral is to be credited with a fixed rate of return equal to the ten-year Treasury Bond rate plus 2%.
- (2) This column represents the compensation costs for financial reporting purposes under FAS123(R) of deferred stock awards granted to non-employee directors during the fiscal year under the Company's 2001 Master Stock Incentive Plan. The Fiscal 2007 deferred stock awards for our non-employee directors were made on January 1, 2007, the grant date established by the Board of Directors. The valuation for those awards was the closing market price of the stock on the date of the award. This column includes the 30% of the annual retainer that is payable only in a deferred stock award. It also includes the additional amounts of the retainers and meeting fees that each director elected to receive in a deferred stock award. The following directors elected to receive all of their fees in deferred stock awards: Dolan,

Grundhofer, Hoffman, Noddle and Wiehoff. The following directors hold deferred stock awards that are vested and will be paid out at the deferral election date made by the director: Bastiaens (6,714 units); Dolan (22,154 units); Eugster (24,131 units); Grundhofer (19,877 units); Hoffman (3,520 units); Miller (8,678 units); Noddle (14,722 units); Oberton (635 units); Wiehoff (7,300 units).

- (3) This column represents the compensation costs for financial reporting purposes under FAS123(R) of stock option awards granted to non-employee directors during the fiscal year under the Company's 2001 Master Stock Incentive Plan. This represents the SFAS 123(R) Fair Market Value of these awards which were determined using the Black-Scholes option pricing model as detailed in Footnote H to the Consolidated Financial Statements in our Annual Report on Form 10-K for Fiscal 2007. The Fiscal 2007 stock option awards for our non-employee directors were made on December 1, 2006, the grant date previously established by the Board of Directors. The grant price for those options was the closing market price of the stock on that date. Mr. Eugster elected to transfer 4,000 of his total 7,200 award to members of his immediate family.
- (4) Includes interest earnings on deferred cash compensation and dividend equivalents earned in deferred stock accounts.
- (5) This column represents the dollar amount of dividends paid on previously granted restricted stock awards last made to non-employee directors in 1997. The following directors hold restricted stock that vests upon normal retirement from the Board, subject to the approval of the Board: Bastiaens (8,910 shares), Dolan (4,858 shares), Eugster (12,850 shares), and Grundhofer (1,840 shares).

AUDIT COMMITTEE REPORT

Audit Committee Report

The following is the report of the Audit Committee with respect to Donaldson's audited financial statements presented in its Annual Report on Form 10-K for the fiscal year ended July 31, 2007.

The Audit Committee of the Board of Directors is composed entirely of independent, non-employee directors, all of whom have been determined by the Board to be independent under the rules of the Securities and Exchange Commission and the New York Stock Exchange. In addition, the Board has determined that John P. Wiehoff is an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission.

The Audit Committee acts under a written charter approved by the Board of Directors. The Audit Committee assists the Board in carrying out its oversight of the Company's financial reporting process, audit process and internal controls. The Audit Committee formally met eight times during the past fiscal year in carrying out its oversight functions. The Audit Committee has the sole authority to appoint, terminate or replace the Company's independent registered public accounting firm. The independent registered public accounting firm reports directly to the Audit Committee.

The Audit Committee reviewed and discussed Donaldson's 2007 audited financial statements with management, the internal auditor and PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm. The Audit Committee also met separately with the internal auditor and the independent registered public accounting firm to discuss and review those financial statements and reports prior to issuance. Management has represented and PricewaterhouseCoopers LLP has confirmed in its opinion to the Audit Committee that the financial statements were prepared in accordance with generally accepted accounting principles and fairly present, in all material respects, the financial condition of Donaldson.

The Audit Committee also received from, and discussed with, PricewaterhouseCoopers LLP the written disclosures and the letter required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. These items relate to PricewaterhouseCoopers LLP independence from Donaldson. The Committee also

reviewed and considered under its pre-approval policy, the compatibility of the independent registered public accounting firm's performance of non-audit services with the maintenance of its independence as the Company's independent registered public accounting firm. The Audit Committee also discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on

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Auditing Standards No. 61, Communications with Audit Committees, which includes, among other items, matters related to the conduct of the audit of Donaldson's financial statements.

Based on the review and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2007.

Members of the Audit Committee

Jack W. Eugster, Chair
 Janet M. Dolan
 Michael J. Hoffman
 Paul David Miller
 Jeffrey Noddle
 John P. Wiehoff

Information Regarding the Independent Registered Public Accounting Firm

Independent Auditors Fees

The aggregate fees billed to the Company for fiscal years 2007 and 2006 by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, are as follows:

	<u>Fiscal 2007</u>	<u>Fiscal 2006</u>
Audit Fees	\$ 2,217,396	\$ 2,324,044
Audit-Related Fees	6,700	2,167
Tax Fees	174,228	270,573
All Other Fees	2,250	1,500
	<u> </u>	<u> </u>
Total Fees	\$ 2,400,574	\$ 2,598,284

Audit Fees for fiscal 2007 and fiscal 2006 include professional services rendered in connection with the audit of the Company's financial statements, including the quarterly reviews, statutory audits of certain of the Company's international subsidiaries and the audit of internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Fiscal 2007 and 2006 Audit-Related Fees include accounting advisory fees related to financial accounting matters. Tax Fees include professional services for tax returns, advice and planning. All Other Fees include a license fee for technical materials.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit and permitted non-audit services provided by the independent

registered public accounting firm, including the fees and terms for those services. The Audit Committee may delegate to one or more designated committee members the authority to grant pre-approvals. This designated member is the Chair of the Audit Committee. Any pre-approval by the Chair must be presented to the full Audit Committee at its next scheduled meeting. All of the services provided by the independent registered public accounting firm during fiscal 2007 and fiscal 2006, including services related to the Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees described above, were approved by the Audit Committee under its pre-approval policies.

ITEM 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed PricewaterhouseCoopers LLP as Donaldson Company's independent registered public accounting firm to audit the books and accounts of the Company for the fiscal year ending July 31, 2008. PricewaterhouseCoopers LLP has audited the books and accounts of the Company since 2002. While the Company is not required to do so, it is submitting the selection of PricewaterhouseCoopers, LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending July 31, 2008 for ratification in order to ascertain the views of the Company's stockholders on this appointment. Even if the appointment is ratified, the Audit Committee, which is solely responsible for appointing and terminating our independent auditor, may in its discretion, direct the appointment of a different independent auditor at any time during the year if it determines that such a change would be in the best interests of the Company.

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and its stockholders. Representatives of PricewaterhouseCoopers LLP are expected to be present at the meeting with the opportunity to make a statement and to respond to appropriate questions. In the event this appointment is not ratified, the Audit Committee will reconsider its selection.

The Audit Committee of the Board of Directors recommends that stockholders vote **FOR** ratification of the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for the fiscal year ending July 31, 2008.

COMPENSATION COMMITTEE REPORT

The Human Resources Committee of the Board of Directors of Donaldson, acting in its capacity as the Compensation Committee of the Company, has reviewed and discussed the following Compensation Discussion and Analysis with management and, based on such review and discussions, the Human Resources Committee recommended to the Board that the Compensation Discussion and Analysis be included in our Proxy Statement and in our Annual Report on Form 10-K for the fiscal year ended July 31, 2007.

SUBMITTED BY THE HUMAN RESOURCES COMMITTEE

Jeffrey Noddle, Chair
Bassy Bastiaens
Jack Eugster
Jack Grundhofer
John Wiehoff

EXECUTIVE COMPENSATION
COMPENSATION DISCUSSION AND ANALYSIS

Executive Compensation Philosophy

The Company's financial objective is to create long term shareholder value through superior share price appreciation and consistent earnings growth. The compensation program for our executives is designed and regularly reviewed to ensure that it is closely tied to that objective and to our shareholders' interests.

The key principles of our compensation strategy include:

Aligning our compensation to financial measures that balance both annual results and long-term strategic decisions

Emphasizing pay outcomes and Company performance by placing a significant portion of pay at risk

Targeting total compensation by comparison to proxy disclosure data for our peer group as recommended by a consultant

Providing significant amounts of equity-based compensation in order to tie our executive compensation program to our shareholders' interests

Requiring significant stock ownership by our executive officers

The key objectives of our executive compensation program are to:

Align the interests of our executives with the long term interests of our shareholders

Provide competitive pay which enables us to attract, retain and motivate top leadership talent

Focus leadership attention on delivering business unit and overall Company performance

Increase shareholder value

Our Compensation Review Process

Our Human Resources Committee (Committee) assists the Board of Directors in providing oversight on executive compensation. The Committee is comprised of five independent non-employee directors who meet the independence and qualification requirements of the Securities and Exchange Commission, the New York Stock Exchange and applicable law.

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The Committee oversees, reviews and reports to the Board on executive compensation plans, as well as leadership development and succession planning. The Committee is responsible for:

Reviewing, approving and administering the executive compensation, incentive compensation and equity-based plans

Reviewing corporate goals and objectives relevant to our Chairman, President and Chief Executive Officer's (CEO) compensation and evaluating the CEO's performance

Determining the compensation programs, compensation levels and benefits for the CEO and the other executive officers of the Company

Conducting the annual performance review of the Company's CEO

Reviewing the Company's leadership development and succession planning process

The Human Resources Committee holds three meetings each year.

The Committee is assisted in performing its duties by our Human Resources Department, the CEO, and when needed, outside executive compensation consultants. Our current practice is to engage an outside executive compensation consultant to conduct a complete review of our executive compensation program every three years. In the other years, the analysis is completed by the Human Resources Department. During 2004, an executive compensation consultant from Towers Perrin was engaged to perform a complete review of our executive compensation program and to conduct a benchmarking analysis. The Committee has engaged Towers Perrin to conduct a similar review and benchmarking analysis of our executive compensation program in the fall of 2007.

During the annual review of each of the executive officer's compensation, the Committee reviews competitive market data from a peer group which currently consists of 40 companies in similar industries with comparable revenues. This peer group was established with input from Towers Perrin. For 2007, the peer group consisted of the following 40 companies:

Actuant Corporation	Harsco Corporation	Sequa Corporation
AMETEK, Inc.	Hubbell Inc.	Snap-On Inc.
Arctic Cat Inc.	IDEX Corporation	Standard Motor Products, Inc.
Bemis Company, Inc.	Kennametal Inc.	Standex International Corporation
Blyth, Inc.	Milacron Inc.	Stewart & Stevenson LLC.
BorgWarner, Inc.	Millipore Corporation	Teleflex, Inc.
Briggs & Stratton Corporation	Modine Manufacturing Co.	Tennant Company
Carlisle Companies, Inc.	Nordson Corporation	Teradyne Inc.
CLARCOR Inc.	Pall Corporation	Thomas & Betts Corporation
Crane Company	Pentair, Inc.	Toro Company
Federal Signal Corporation	Polaris Industries, Inc.	Wabash National Corporation
H B Fuller Company	Precision Castparts Corporation	Watts Water Technologies, Inc.
Gentek Inc.	Regal-Beloit Corporation	Winnebago Industries, Inc.
Graco Inc.		

Published surveys and market data from this peer group are used to target base salary, incentives, and total compensation for our executives. Base salary is targeted at the 50th percentile of the peer group with total compensation targeted at the 60th to 65th percentile of the peer group, depending on performance. Tally sheets which include all forms of compensation for each of our Named Executive Officers were completed and reviewed by the Committee as part of the annual review process.

The Committee also relies on advice from our CEO and our Vice President of Human Resources for determining compensation for our executive officers, other than the CEO.

Cash Compensation

Cash compensation consists of base salary and an annual cash incentive. Each year the CEO completes performance reviews for the Company's executive officers. The CEO utilizes the performance information, as well as benchmark data, to determine base salary recommendations to the Committee for the Company's

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executive officers. The Committee discusses and finalizes base salaries for the other executive officers and approves the annual incentive plan.

The Chairman of the Committee conducts the CEO's annual performance review with input from the entire Board. The Committee utilizes performance information, as well as benchmark data to determine the CEO's base salary and approve the annual incentive plan.

Equity Compensation

Equity compensation consists of stock options, long term compensation awards, and restricted stock. Our CEO presents equity grant recommendations to the Committee for our executive officers for our Long Term Compensation Plan, stock option grants and restricted stock (see the Executive Compensation Program Overview section for details on how these amounts are determined). The Committee reviews and approves the awards to the executive officers and determines and approves the CEO's equity awards.

At the December Committee meeting, the annual stock option grants for each of the executive officers are determined and approved by the Committee. The date of the grant is the date of the Committee meeting and the grant price is the closing share price on the date of the Committee meeting.

Each year, the Committee also approves the total number of stock options available to grant to our non-officer employees. The Committee establishes a pre-determined future date of grant for our annual stock option grants made to non-officers and they set the grant price to be the closing price of the stock on that pre-established grant date. The Committee sets the aggregate amount of options available and the CEO uses these options to reward high performing employees. For 2007, the Committee approved a total of no more than 250,000 shares of common stock to be used for annual time stock options awards for non-officer employees.

EXECUTIVE COMPENSATION PROGRAM OVERVIEW

The primary components to our executive compensation program for Fiscal 2007 were:

- Base Salary
- Annual Cash Incentives
- Long Term Compensation Plan
- Stock Options
- Restricted Stock
- Benefits
- Perquisites
- Change in Control Agreements

Base Salary

The base salaries paid to our executives are designed to provide a market competitive level of compensation to each executive based on position, scope of responsibility, business and leadership experience, and performance. The Committee targets base salary at the 50th percentile of our peer group and reviews base salary annually. Prior to the beginning of each calendar year, executive officers may choose to defer up to 75% of their base salary into the Donaldson Company, Inc. Deferred Compensation and 401(k) Excess Plan, which is discussed further under Benefits.

Annual Cash Incentive

The annual cash incentive award is designed to reward officers for their contributions toward the Company's achievement of specific goals and to link the interests of our officers with the Company's business and financial plans. The Committee believes this incentive compensation element focuses attention on business performance and provides a significant at risk variable component of our competitive total compensation package.

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For Fiscal 2007, the target awards under the annual cash incentive plan were:

80% of base salary for the CEO

50% or 60% of base salary for the CFO and Senior Vice Presidents

40% of base salary for Vice Presidents

Predetermined performance goals are set and approved by the Committee each year. The annual cash incentive awards are calculated based on predetermined ranges for the achievement of the established performance measure potential losses on supplier programs, loss of business, higher losses on receivables or inventory, and/or other disruptions in our business, which could negatively affect our operating results. We do not carry broad insurance covering such terrorist or military actions, and even if we were to seek such coverage, the cost would likely be prohibitive.

Failure to retain and recruit key personnel would harm our ability to meet key objectives. Because of the nature of our business, which includes (but is not limited to) high volume of transactions, business complexity, wide geographical coverage, and broad scope of products, suppliers, and customers, we are dependent in large part on our ability to retain the services of our key management, sales, IT, operational, and finance personnel. Our continued success is also dependent upon our ability to retain and recruit other qualified employees, including highly skilled technical, managerial, and marketing personnel, to meet our needs. Competition for qualified personnel is intense. In addition, we have recently reduced our personnel in various geographies and functions through our restructuring and outsourcing activities. These reductions could negatively impact our relationships with our workforce, or make hiring other employees more difficult. We may not be successful in attracting and retaining the personnel we require, which could have a material adverse effect on our business. Additionally, changes in workforce, including government regulations, collective bargaining agreements or the availability of qualified personnel could disrupt operations or increase our operating cost structure.

We face a variety of risks with outsourcing arrangements. We have outsourced various transaction-oriented service and support functions to a leading global business process outsource provider outside the United States. We have also previously outsourced a significant portion of our IT infrastructure function to a third-party provider. We may outsource additional functions to third-party providers. Our reliance on third-party providers to provide service to our customers and suppliers and for our IT infrastructure requirements to

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support our business could result in significant disruptions and costs to our operations, including damaging our relationships with our suppliers and customers, if these third-party providers do not meet their obligations to adequately maintain an appropriate level of service for the outsourced functions or fail to adequately support our IT infrastructure requirements. As a result of our outsourcing activities, it may also be more difficult to recruit and retain qualified employees for our business needs.

Changes in our credit rating, or other market factors may increase our interest expense or other costs of capital, or capital may not be available to us on acceptable terms to fund our working capital needs. Our business requires significant levels of capital to finance accounts receivable and product inventory that is not financed by trade creditors. This is especially true when our business is expanding, including through acquisitions, but we still have substantial demand for capital even during periods of stagnant or declining net sales. In order to continue operating our business, we will continue to need access to capital, including debt financing. In addition, changes in payment terms with either suppliers or customers could increase our capital requirements. The capital we require may not be available on terms acceptable to us, or at all. Changes in our credit ratings, as well as macroeconomic factors such as fluctuations in interest rates or a general economic downturn, may restrict our ability to raise the necessary capital in adequate amounts or on terms acceptable to us, and the failure to do so could harm our ability to operate or expand our business.

Rapid changes in the operating environment for IT distributors have placed significant strain on our business, and we offer no assurance that our ability to manage future adverse industry trends will be successful. Dynamic changes in the industry have resulted in new and increased responsibilities for management personnel and have placed and continue to place a significant strain upon our management, operating and financial systems, and other resources. This strain may result in disruptions to our business and decreased revenues and profitability. In addition, we may not be able to attract or retain sufficient personnel to manage our operations through such dynamic changes. Even with sufficient personnel we cannot assure our ability to successfully manage future adverse industry trends. Also crucial to our success in managing our operations will be our ability to achieve additional economies of scale. Our failure to achieve these additional economies of scale could harm our profitability.

Changes in accounting rules could adversely affect our future operating results. Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. These principles are subject to interpretation by various governing bodies, including the FASB and the SEC, who create and interpret appropriate accounting standards. A change from current accounting standards could have a significant adverse effect on our results of operations. In December 2004, the FASB issued new guidance that addresses the accounting for share-based payments, FAS No. 123R. In April 2005, the SEC deferred the effective date of FAS 123R to years beginning after June 15, 2005. Therefore, FAS 123R will be effective for the company beginning its first quarter of fiscal 2006. FAS 123R as amended requires compensation cost relating to all share-based payments to employees to be recognized in the financial statements based on their fair values. We currently expect the amount of share-based compensation expense included in operating expenses to be approximately \$30 million in 2006.

Our quarterly results have fluctuated significantly. Our quarterly operating results have fluctuated significantly in the past and will likely continue to do so in the future as a result of:

seasonal variations in the demand for our products and services such as lower demand in Europe during the summer months, worldwide pre-holiday stocking in the retail channel during the September-to-December period and the seasonal increase in demand for our North American fee-based logistics related services in the fourth quarter which affects our operating expenses and margins;

competitive conditions in our industry, which may impact the prices charged and terms and conditions imposed by our suppliers and/or competitors and the prices we charge our customers, which in turn may negatively impact our revenues and/or gross margins;

currency fluctuations in countries in which we operate;

variations in our levels of excess inventory and doubtful accounts, and changes in the terms of vendor-sponsored programs such as price protection and return rights;

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changes in the level of our operating expenses;

the impact of acquisitions we may make;

the impact of and possible disruption caused by reorganization efforts, as well as the related expenses and/or charges;

the loss or consolidation of one or more of our major suppliers or customers;

product supply constraints;

interest rate fluctuations, which may increase our borrowing costs and may influence the willingness of customers and end-users to purchase products and services; and

general economic or geopolitical conditions.

These historical variations may not be indicative of future trends in the near term. Our narrow operating margins may magnify the impact of the foregoing factors on our operating results. We believe that you should not rely on period-to-period comparisons of our operating results as an indication of future performance. In addition, the results of any quarterly period are not indicative of results to be expected for a full fiscal year.

We are dependent on third-party shipping companies for the delivery of our products. We rely almost entirely on arrangements with third-party shipping companies for the delivery of our products. The termination of our arrangements with one or more of these third-party shipping companies, or the failure or inability of one or more of these third-party shipping companies to deliver products from suppliers to us or products from us to our reseller customers or their end-user customers, could disrupt our business and harm our reputation and net sales.

ITEM UNRESOLVED STAFF COMMENTS

1B.

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Santa Ana, California. We support our global operations through an extensive sales office and distribution network throughout North America, Europe, Latin America, and Asia-Pacific. As of December 31, 2005, we operated 89 distribution centers worldwide. Additionally, we serve markets where we do not have an in-country presence through various sales offices and representative offices, including those in Santa Ana, California; Buffalo, New York; Miami, Florida; Singapore; and certain countries in Europe.

As of December 31, 2005, we leased substantially all our facilities on varying terms. We do not anticipate any material difficulties with the renewal of any of our leases when they expire or in securing replacement facilities on commercially reasonable terms. We also own several facilities, the most significant of which are our office/distribution facilities in Straubing, Germany and several AVAD locations in the United States.

ITEM 3. LEGAL PROCEEDINGS

During 2002 and 2003, one of our Latin American subsidiaries was audited by the Brazilian taxing authorities in relation to certain commercial taxes. As a result of this audit, the subsidiary received an assessment of 30.6 million Brazilian reais, including interest and penalties computed through December 31, 2005, or approximately \$13.1 million at December 31, 2005, alleging these commercial taxes were not properly remitted for the subsidiary's purchase of imported software during the period January through September 2002. The Brazilian taxing authorities may make similar claims for periods subsequent to September 2002. Additional assessments for periods subsequent to September 2002, if received, may be significant either individually or in the aggregate. It is management's opinion, based upon the opinions of outside legal counsel, that we have valid defenses to the assessment of these taxes on the purchase of imported software for the 2002 period at issue or any subsequent period. Although we are vigorously pursuing administrative and judicial action to challenge the assessment, no assurance can be given as to the ultimate outcome. An unfavorable

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resolution of this matter is not expected to have a material impact on our financial condition, but depending upon the time period and amounts involved it may have a material negative effect on our consolidated results of operations or cash flows.

We received an informal inquiry from the SEC during the third quarter of 2004. The SEC's focus to date has been related to certain transactions with McAfee, Inc. (formerly Network Associates, Inc. or NAI) from 1998 through 2000. We also received subpoenas from the U.S. Attorney's office for the Northern District of California (Department of Justice) in connection with its grand jury investigation of NAI, which seek information concerning these transactions. On January 4, 2006, McAfee and the SEC made public the terms of a settlement they had reached with respect to McAfee. We continue to cooperate fully with the SEC and the Department of Justice in their inquiries. We are engaged in discussions with the SEC toward a possible resolution of matters concerning these NAI-related transactions. We cannot predict with certainty the outcome of these discussions, nor their timing, nor can we reasonably estimate the amount of any loss or range of loss that might be incurred as a result of the resolution of these matters with the SEC and the Department of Justice. Such amounts may be material to our consolidated results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report, through the solicitation of proxies or otherwise.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Common Stock. Our Common Stock is traded on the New York Stock Exchange under the symbol IM. The following table sets forth the high and low price per share, based on closing price, of our Common Stock for the periods indicated.

		High	Low
Fiscal Year 2005	First Quarter	\$ 20.00	\$ 16.30
	Second Quarter	17.41	14.66
	Third Quarter	18.65	15.43
	Fourth Quarter	20.00	17.30
Fiscal Year 2004	First Quarter	\$ 19.55	\$ 15.88
	Second Quarter	18.45	11.93
	Third Quarter	16.28	12.89
	Fourth Quarter	20.80	16.24

As of January 27, 2006 there were 569 holders of record of our Common Stock. Because many of such shares are held by brokers and other institutions, on behalf of shareowners, we are unable to estimate the total number of shareowners represented by these record holders.

Dividend Policy. We have neither declared nor paid any dividends on our Common Stock in the preceding two fiscal years. We currently intend to retain future earnings to finance the growth and development of our business and, therefore, do not anticipate declaring or paying cash dividends on our Common Stock for the foreseeable future. Any future decision to declare or pay dividends will be at the discretion of the Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deems relevant. In addition, certain of our debt facilities contain restrictions on the declaration and payment of dividends.

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Equity Compensation Plan Information. The following table provides information, as of December 31, 2005, with respect to equity compensation plans under which equity securities of our company are authorized for issuance, aggregated as follows: (i) all compensation plans previously approved by our shareowners and (ii) all compensation plans not previously approved by our shareowners.

Plan Category	(a)	(b)	(c)
	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareowners	30,558,305	\$ 15.79	18,264,152
Equity compensation plans not approved by shareowners	None	None	None
TOTAL	30,558,305	\$ 15.79	18,264,152

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The following table presents our selected consolidated financial data, which includes the results of operations of our acquisitions that have been combined with our results of operations beginning on their acquisition dates. The information set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements and notes thereto, included elsewhere in this Annual Report on Form 10-K.

Our fiscal year is a 52-week or 53-week period ending on the Saturday nearest to December 31. References below to 2005, 2004, 2003, 2002, and 2001 represent the fiscal years ended December 31, 2005 (52 weeks), January 1, 2005 (52 weeks), January 3, 2004 (53 weeks), December 28, 2002 (52 weeks) and December 29, 2001 (52 weeks), respectively.

	2005	2004	2003	2002	2001
(Dollars in 000s, except per share data)					
Selected Operating Information					
Net sales	\$ 28,808,312	\$ 25,462,071	\$ 22,613,017	\$ 22,459,265	\$ 25,186,933
Gross profit	1,574,978	1,402,042	1,223,488	1,231,638	1,329,899
Income from operations(1)	362,186	283,367	156,193	50,208	92,930
Income before income taxes and cumulative effect of adoption of a new accounting standard(2)	301,937	263,276	115,794	8,998	11,691
Income before cumulative effect of adoption of a new accounting standard(3)	216,906	219,901	149,201	5,669	6,737
Net income (loss)(4)	216,906	219,901	149,201	(275,192)	6,737
Basic earnings per share income before cumulative effect of adoption of a new accounting standard	1.35	1.41	0.99	0.04	0.05
Diluted earnings per share income before cumulative effect of adoption of a new accounting standard	1.32	1.38	0.98	0.04	0.04
	1.35	1.41	0.99	(1.83)	0.05

Basic earnings per
share net income
(loss)

Diluted earnings per share net income (loss)	1.32	1.38	0.98	(1.81)	0.04
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Weighted average
common shares
outstanding:

Basic	160,262,465	155,451,251	151,220,639	150,211,973	147,511,408
Diluted	164,331,166	159,680,040	152,308,394	152,145,669	150,047,807

Selected Balance Sheet

Information(5)

Cash and cash equivalents	\$ 324,481	\$ 398,423	\$ 279,587	\$ 387,513	\$ 273,059
Total assets	7,034,990	6,926,737	5,474,162	5,144,354	5,302,007
Total debt(6)	604,867	514,832	368,255	365,946	458,107
Stockholders equity	2,438,598	2,240,810	1,872,949	1,635,989	1,867,298

- (1) Includes reorganization costs of \$16,276 in 2005, credit adjustment to reorganization costs of \$2,896 in 2004 for previous actions and reorganization costs of \$21,570, \$71,135, and \$41,411 in 2003, 2002 and 2001, respectively, as well as other major-program costs of \$22,935, \$23,363 and \$43,944 in 2005, 2003 and 2002, respectively, charged to selling, general and administrative expenses, or SG&A expenses, and

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\$443 and \$1,552 in 2003 and 2002, respectively, charged to costs of sales, which were incurred in the implementation of our broad-based reorganization plan, our comprehensive profit enhancement program and additional profit enhancement opportunities (see Note 3 to our consolidated financial statements). Fiscal 2003 also includes a charge of \$20,000 related to the bankruptcy of Micro Warehouse in the United States, one of our former customers.

- (2) Includes items noted in footnote (1) above as well as a loss of \$8,413 on the redemption of senior subordinated notes in 2005, a gain on forward currency hedge of \$23,120 in 2004 related to our Australian dollar denominated purchase of Tech Pacific and a gain on sale of available-for-sale securities of \$6,535 in 2002.
- (3) Includes items noted in footnotes (1) and (2) above, as well as the reversal of a deferred tax liability of \$2,385, \$41,078 and \$70,461 in 2005, 2004 and 2003, respectively, related to the gains on sale of available-for-sale securities (see Note 8 to our consolidated financial statements).
- (4) Includes items noted in footnotes (1), (2), and (3) above, as well as the cumulative effect of adoption of a new accounting standard, net of income taxes, of \$280,861 in 2002 relating to the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.
- (5) All balance sheet data are given at end of period.
- (6) Includes convertible debentures, senior subordinated notes, revolving credit facilities and other long-term debt including current maturities, but excludes off-balance sheet debt of \$60,000, \$75,000, and \$222,253 at the end of fiscal years 2003, 2002, and 2001, respectively, which amounts represent all of the undivided interests in transferred accounts receivable sold to and held by third parties as of the respective balance sheet dates.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview of Our Business*****Sales***

We are the largest distributor of IT products and services worldwide based on revenues. We offer a broad range of IT products and services and help generate demand and create efficiencies for our customers and suppliers around the world. Prior to fiscal year 2001, we generated positive annual sales growth from expansion of our existing operations, the integration of numerous acquisitions worldwide, the addition of new product categories and suppliers, the addition of new customers, increased sales to our existing customer base, and growth in the IT products and services distribution industry in general. In 2001, our worldwide net sales declined by 18% to \$25.2 billion and further declined to \$22.5 billion and \$22.6 billion in 2002 and 2003, respectively. These declines were primarily the result of the general decline in demand for IT products and services throughout the world, beginning in the last quarter of 2000 and continuing through most of 2003, as well as the decision of certain vendors to pursue a direct sales model, and our exit from or downsizing of certain markets in Europe and Latin America. In 2004, our net sales increased to \$25.5 billion and further increased to \$28.8 billion in 2005, or approximately 13% growth each year. This increase primarily reflects the improving demand environment for IT products and services in most economies worldwide as well as the additional revenue arising from the acquisitions of Nimax in June 2004, Tech Pacific in November 2004 and AVAD in July 2005. Competitive pricing pressures, the expansion of a direct sales strategy by one or more of our major vendors or a decline in the overall demand for IT products and services could, however, adversely affect the current improvements in our revenues and profitability over the near term.

Gross Margin

The IT distribution industry in which we operate is characterized by narrow gross profit as a percentage of net sales (gross margin) and narrow income from operations as a percentage of net sales (operating margin). Historically, our margins have been negatively impacted by intense price competition, as well as changes in vendor terms and conditions, including, but not limited to, significant reductions in vendor rebates and incentives, tighter restrictions on our ability to return inventory to vendors, and reduced time periods qualifying for price protection. To mitigate these factors, we have implemented, and continue to refine, changes to our pricing strategies, inventory management processes, and vendor program processes. We continuously monitor and change, as appropriate, certain of the terms and conditions offered to our customers to reflect those being set by our vendors. In addition, we have pursued expansion into adjacent product markets such as AIDC/ POS and consumer electronics, which generally have higher gross margins. As a result, gross margin improved from 5.3% in 2001 to 5.5% in 2002 and has remained relatively flat through 2005. However, we expect that restrictive vendor terms and conditions and competitive pricing pressures will continue and if they worsen in the foreseeable future, may hinder our ability to maintain and/or improve our gross margins from the levels realized in recent years.

Selling General and Administrative Expenses or SG&A Expenses

Our SG&A expenses, as a percentage of net sales, increased to 4.7% in 2001 and to 5.0% in 2002 primarily due to the significant decline in our net revenues during these years. As a result, we initiated a broad-based reorganization plan in June 2001, a comprehensive profit enhancement program in September 2002, and other detailed actions across all our regions to streamline operations, improve service and generate operating income improvements. In April 2005, we announced an outsourcing and optimization plan to improve operating efficiencies within the North American region and, as part of the plan, we have also restructured and consolidated other job functions within the North American region. We also substantially completed the integration of operations of our pre-existing Asia-Pacific business with Tech Pacific during the third quarter of 2005. As a result of these actions and the increase in sales levels, we reduced our SG&A expenses to 4.6% of net sales in 2003, to 4.4% of net sales in 2004 and to 4.1% of net sales in 2005. We continue to pursue and implement business process improvements and organizational changes to create

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sustained cost reductions without sacrificing customer service over the long-term. Implementation of additional actions, including integration of acquisitions, in the future, if any, could result in additional costs as well as additional operating income improvements.

Working Capital and Debt

The IT products and services distribution business is working capital intensive. Our business requires significant levels of working capital primarily to finance accounts receivable and inventories. We have relied heavily on debt, trade credit from vendors and accounts receivable financing programs for our working capital needs. At December 29, 2001, we had total debt of \$458.1 million plus an additional \$222.3 million in off-balance sheet debt from our accounts receivable financing programs, and a cash balance of \$273.1 million. With our strong focus on management of working capital and cash provided by operations, by January 1, 2005, we had eliminated the \$222.3 million of off-balance sheet debt from our accounts receivable financing programs, increased our cash balance by more than \$125 million to \$398.4 million and limited the amount of debt to \$514.8 million, while funding the costs of our profit enhancement program and the acquisitions of Tech Pacific and Nimax. At December 31, 2005, our total debt increased to \$604.8 million while our cash balance decreased to \$324.5 million as a result of our acquisition of AVAD and increased working capital requirements to support the growth of our business.

Acquisition of Tech Pacific

In November 2004, we acquired all of the outstanding shares of Tech Pacific, one of Asia-Pacific's largest technology distributors, for cash and the assumption of debt. This acquisition provides us with a strong management and employee base with excellent execution capabilities, a history of solid operating margins and profitability, and a strong presence in the growing Asia-Pacific region.

Acquisition of AVAD

In July 2005, we acquired certain assets of AVAD, the leading distributor for solution providers and custom installers serving the home automation and entertainment market in the United States, or U.S. This strategic acquisition accelerates our entry into the adjacent consumer electronics market and improves the operating margin in our North American operations.

Our Reorganization and Profit Enhancement Programs

In June 2001, we initiated a broad-based reorganization plan to streamline operations and reorganize resources to increase flexibility, improve service and generate cost savings and operational efficiencies. This program resulted in restructuring several functions, consolidation of facilities, and reductions of workforce worldwide in each of the quarters through June 2002. Total reorganization costs associated with these actions were \$8.8 million and \$41.4 million in 2002 and 2001, respectively.

In September 2002, we announced a comprehensive profit enhancement program, which was designed to improve operating income through enhancements in gross margin and reduction of SG&A expense. Key components of this initiative included enhancement and/or rationalization of vendor and customer programs, optimization of facilities and systems, outsourcing of certain IT infrastructure functions, geographic consolidations and administrative restructuring. For 2003 and 2002, we incurred \$31.0 million and \$107.9 million, respectively, of costs (or \$138.9 million from inception of the program through the end of fiscal year 2003) related to this profit enhancement program, which was within our original announced estimate of \$140 million. These costs consisted primarily of reorganization costs of \$13.6 million and \$62.4 million in 2003 and 2002, respectively, and other program implementation costs, or other major-program costs, of \$17.4 million and \$43.9 million charged to SG&A expenses in 2003 and 2002, respectively, and \$1.6 million charged to cost of sales in 2002. We realized significant benefits from the reduction in certain SG&A expenses and from gross margin improvements as a result of our comprehensive profit enhancement program.

During 2003, we incurred incremental reorganization costs of \$8.0 million and incremental other major-program costs of \$6.4 million (\$6.0 million charged to SG&A expenses and \$0.4 million charged to cost of

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sales), which were not part of the original scope of the profit enhancement program announced in September 2002. These costs primarily related to the further consolidation of our operations in the Nordic areas of Europe and a loss on the sale of a non-core German semiconductor equipment distribution business. These actions resulted in additional operating income improvements primarily in the European region.

In November 2004, we acquired all of the outstanding shares of Tech Pacific. We substantially completed the integration of the operations of our pre-existing Asia-Pacific business with Tech Pacific in the third quarter of 2005. During 2005, integration expenses incurred totaled \$12.7 million, comprised of \$6.7 million of reorganization costs primarily for employee termination benefits, facility exit costs and other contract termination costs for associates and facilities of Ingram Micro made redundant by the acquisition as well as \$6.0 million of other costs charged to SG&A primarily for consulting, retention and other expenses related to the integration of this acquisition, which was in line with our announced estimates (see Note 3 to our consolidated financial statements).

In April 2005, we announced an outsourcing and optimization plan to improve operating efficiencies within our North American region. The plan, which is now substantially complete, included an outsourcing arrangement that moved transaction-oriented service and support functions including certain North America positions in finance and shared services, customer service, vendor management and certain U.S. positions in technical support and inside sales (excluding field sales and management positions) to a leading global business process outsource provider. As part of the plan, we also restructured and consolidated other job functions within the North American region. Total costs of the actions, or major-program costs, incurred in 2005 were \$26.6 million (\$9.7 million of reorganization costs, primarily for workforce reductions and facility exit costs, as well as \$16.9 million of other costs charged to SG&A primarily for consulting, retention and other expenses), which was in line with our announced estimates (see Note 3 to our consolidated financial statements).

The following table summarizes our reorganization costs and other major-program costs for the actions we have taken in fiscal years 2005 and 2003 as discussed above (in millions). The credit balances in 2005 and 2004 represent adjustments to reorganization costs as a result of the favorable resolution of obligations relating to previous actions:

	Fiscal Year					
	2005		2004		2003	
	Reorganization Costs	Other Major- Program Costs	Reorganization Costs	Other Major- Program Costs	Reorganization Costs	Other Major- Program Costs
North America	\$ 9.7	\$ 16.9	\$ (2.2)	\$	\$ 11.2	\$ 17.4
Europe	(0.1)		(1.0)		9.2	6.4
Asia-Pacific	6.7	6.0	0.3		0.1	
Latin America					1.1	
Total	\$ 16.3	\$ 22.9	\$ (2.9)	\$	\$ 21.6	\$ 23.8

Our Critical Accounting Policies and Estimates

The discussions and analyses of our consolidated financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of significant contingent assets and liabilities at the financial statement date, and reported amounts of revenue and expenses during the reporting period. On an ongoing basis, we review and evaluate our estimates and assumptions, including, but not limited to, those that relate to

accounts receivable; vendor programs; inventories; goodwill, intangible and other long-lived assets; income taxes; and contingencies and litigation. Our estimates are based on our historical experience and a variety of other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making our judgment about the carrying values of assets and liabilities that are not readily available from other sources. Although we believe our estimates, judgments

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and assumptions are appropriate and reasonable based upon available information, these assessments are subject to a wide range of sensitivity, therefore, actual results could differ from these estimates.

We believe the following critical accounting policies are affected by our judgments, estimates and/or assumptions used in the preparation of our consolidated financial statements.

Accounts Receivable - We provide allowances for doubtful accounts on our accounts receivable for estimated losses resulting from the inability of our customers to make required payments. Changes in the financial condition of our customers or other unanticipated events, which may affect their ability to make payments, could result in charges for additional allowances exceeding our expectations. Our estimates are influenced by the following considerations: the large number of customers and their dispersion across wide geographic areas; the fact that no single customer accounts for 10% or more of our net sales; a continuing credit evaluation of our customers' financial condition; aging of receivables, individually and in the aggregate; credit insurance coverage; the value and adequacy of collateral received from our customers in certain circumstances; and our historical loss experience.

Vendor Programs - We receive funds from vendors for price protection, product rebates, marketing/promotion, infrastructure reimbursement and meet competition programs, which are recorded as adjustments to product costs, revenue, or SG&A expenses according to the nature of the program. Some of these programs may extend over one or more quarterly reporting periods. We accrue rebates or other vendor incentives as earned based on sales of qualifying products or as services are provided in accordance with the terms of the related program. Actual rebates may vary based on volume or other sales achievement levels, which could result in an increase or reduction in the estimated amounts previously accrued. We also provide reserves for receivables on vendor programs for estimated losses resulting from vendors' inability to pay or rejections of claims by vendors.

Inventories - Our inventory levels are based on our projections of future demand and market conditions. Any sudden decline in demand and/or rapid product improvements and technological changes could cause us to have excess and/or obsolete inventories. On an ongoing basis, we review for estimated excess or obsolete inventories and write down our inventories to their estimated net realizable value based upon our forecasts of future demand and market conditions. If actual market conditions are less favorable than our forecasts, additional inventory write-downs may be required. Our estimates are influenced by the following considerations: protection from loss in value of inventory under our vendor agreements, our ability to return to vendors only a certain percentage of our purchases as contractually stipulated, aging of inventories, a sudden decline in demand due to an economic downturn, and rapid product improvements and technological changes.

Goodwill, Intangible Assets and Other Long-Lived Assets - We adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (FAS 142) in 2002. FAS 142 eliminated the amortization of goodwill. FAS 142 requires that after the initial impairment review upon adoption, goodwill should be reviewed at least annually thereafter. In the fourth quarters of 2005, 2004 and 2003, we performed our annual impairment tests of goodwill in North America, Europe and Asia-Pacific. The valuation methodologies included, but were not limited to, estimated net present value of the projected future cash flows of these reporting units. In connection with these tests, valuations of the individual reporting units were obtained or updated from an independent third-party valuation firm. No impairment was indicated based on these tests. However, if actual results are substantially lower than our projections underlying these valuations, or if market discount rates increase, our future valuations could be adversely affected, potentially resulting in future impairment charges.

We also assess potential impairment of our goodwill, intangible assets and other long-lived assets when there is evidence that recent events or changes in circumstances have made recovery of an asset's carrying value unlikely. The amount of an impairment loss would be recognized as the excess of the asset's carrying value over its fair value. Factors which may cause impairment include significant changes in the manner of use of these assets,

negative industry or economic trends, and significant underperformance relative to historical or projected future operating results.

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Income Taxes - As part of the process of preparing our consolidated financial statements, we estimate our income taxes in each of the taxing jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing any temporary differences resulting from the different treatment of certain items, such as the timing for recognizing revenues and expenses, for tax and financial reporting purposes. These differences may result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We are required to assess the likelihood that our deferred tax assets, which include net operating loss carryforwards and temporary differences that are expected to be deductible in future years, will be recoverable from future taxable income or other tax planning strategies. If recovery is not likely, we must provide a valuation allowance based on our estimates of future taxable income in the various taxing jurisdictions, and the amount of deferred taxes that are ultimately realizable.

The provision for tax liabilities involves evaluations and judgments of uncertainties in the interpretation of complex tax regulations by various taxing authorities. In situations involving tax related uncertainties, such as our gains on sales of Softbank common stock (see Note 8 to our consolidated financial statements), we provide for tax liabilities unless we consider it probable that additional taxes will not be due. As additional information becomes available, or these uncertainties are resolved with the taxing authorities, revisions to these liabilities may be required, resulting in additional provision for or benefit from income taxes in our consolidated income statement.

Our U.S. federal tax returns for the fiscal years 2000 and 1999 were closed in September 2004 and 2003, respectively, and certain state returns for fiscal years 2000 and 1999 were closed in the third and fourth quarters of 2004, which resolved the tax matters related to the gains on sales of Softbank common stock in 1999 and 2000 in those jurisdictions. Accordingly, we reversed the related federal and certain state deferred tax liabilities of \$40.0 million and \$1.1 million associated with the gains on the 2000 and 1999 sales in the third and fourth quarters of 2004, respectively, while we reversed the related federal deferred tax liability of \$70.5 million associated with the gain on the 1999 sale in the third quarter of 2003, thereby reducing our income tax provisions for both years in the consolidated statement of income. In 2005, we also settled and paid tax liabilities of \$1.4 million and \$2.8 million associated with the gains realized in 2000 and 1999, respectively, with certain state tax jurisdictions and reversed tax liabilities of \$1.0 million and \$1.4 million related to gains in 2000 and 1999, respectively, for such tax jurisdictions.

Contingencies and Litigation - There are various claims, lawsuits and pending actions against us, not otherwise noted in Item 3, and which are incidental to our operations. If a loss arising from these actions is probable and can be reasonably estimated, we record the amount of the estimated loss. If the loss is estimated using a range within which no point is more probable than another, the minimum estimated liability is recorded. Based on current available information, we believe that the ultimate resolution of these actions will not have a material adverse effect on our consolidated financial statements (see Note 10 to our consolidated financial statements). As additional information becomes available, we assess any potential liability related to these actions and may need to revise our estimates. Future revisions of our estimates could materially impact our consolidated results of operations, cash flows or financial position.

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

	2005		2004		2003	
Net sales by geographic region:						
North America	\$ 12,217	42.4%	\$ 11,777	46.3%	\$ 10,965	48.5%
Europe	10,424	36.2	9,839	38.6	8,267	36.5
Asia-Pacific	4,843	16.8	2,742	10.8	2,320	10.3
Latin America	1,324	4.6	1,104	4.3	1,061	4.7
Total	\$ 28,808	100.0%	\$ 25,462	100.0%	\$ 22,613	100.0%

	2005		2004		2003	
Operating income (loss) and operating margin by geographic region:						
North America	\$ 157.6	1.3%	\$ 130.3	1.1%	\$ 94.5	0.9%
Europe	143.4	1.4	129.8	1.3	73.2	0.9
Asia-Pacific	39.8	0.8	9.8	0.4	(10.3)	(0.4)
Latin America	21.4	1.6	13.5	1.2	(1.2)	(0.1)
Total	\$ 362.2	1.3%	\$ 283.4	1.1%	\$ 156.2	0.7%

We sell products purchased from many vendors, but generated approximately 23%, 22%, and 24% of our net sales in fiscal years 2005, 2004 and 2003, respectively, from products purchased from Hewlett-Packard Company. There were no other vendors that represented 10% or more of our net sales in each of the last three years.

The following table sets forth certain items from our consolidated statement of income as a percentage of net sales, for each of the fiscal years indicated.

	2005	2004	2003
Net sales	100.0%	100.0%	100.0%
Cost of sales	94.5	94.5	94.6
Gross profit	5.5	5.5	5.4
Operating expenses:			
Selling, general and administrative	4.1	4.4	4.6
Reorganization costs	0.1	0.0	0.1
Income from operations	1.3	1.1	0.7
Other expense, net	0.2	0.1	0.2
Income before income taxes	1.1	1.0	0.5

Provision for (benefits from) income taxes	0.3	0.2	(0.2)
Net income	0.8%	0.8%	0.7%

Results of Operations for the Years Ended December 31, 2005, January 1, 2005 and January 3, 2004

Our consolidated net sales were \$28.8 billion, \$25.5 billion and \$22.6 billion in 2005, 2004 and 2003, respectively, representing an annual growth rate of 13% in 2005 and 2004. The overall increase in net sales from 2003 to 2005 was primarily attributable to improving demand environment for IT products and services in most economies worldwide and additional revenue arising from the acquisitions of Nimax in June 2004,

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Tech Pacific in November 2004 and AVAD in July 2005. However, competitive pricing pressures, the expansion of a direct sales strategy by one or more of our major vendors, changes in terms and conditions by our vendors and/or softening of demand could adversely affect the current improvements in our revenues and profitability over the near term.

Net sales from our North American operations were \$12.2 billion, \$11.8 billion and \$11.0 billion in 2005, 2004 and 2003, respectively. The year-over-year growth in North American net sales of 3.7% and 7.4% in 2005 and 2004, respectively, reflect the slightly improved demand for IT products and services in this region, particularly value added resellers, as well as the additional revenue arising from the acquisition of AVAD in July 2005. Net sales from our European operations were \$10.4 billion, \$9.8 billion and \$8.3 billion in 2005, 2004 and 2003, respectively. The year-over-year growth in European net sales of 5.9% and 19.0% in 2005 and 2004, respectively, reflects increases in our market share in certain operations within Europe and improved demand for IT products and services across the region in 2005 and 2004. In 2004, the translation impact of the relatively stronger European currencies compared to 2003 resulted in an increase in revenue of approximately 11%. In 2005, the translation impact of the European currencies had a negative impact of approximately 1%. Net sales from our Asia-Pacific operations were \$4.8 billion, \$2.7 billion and \$2.3 billion in 2005, 2004 and 2003, respectively. The year-over-year growth in Asia-Pacific net sales of 76.7% and 18.2% in 2005 and 2004, primarily reflects a full year of revenue in 2005 resulting from our acquisition of Tech Pacific compared to approximately one and one-half months of revenue in the prior year. Our continued focus on improving the operating model and profitability in this region had a tempering effect on sales growth in 2005 and 2004. Net sales from our Latin American operations were \$1.3 billion, \$1.1 billion and \$1.1 billion in 2005, 2004 and 2003, respectively. Net sales from our Latin American operations increased 19.9% in 2005 and 4.1% in 2004, reflecting the region's improved demand environment over the period and the strengthening of currencies in certain Latin American markets in 2005.

Despite the continued competitive environments in North America and Europe, as well as economic softness in certain countries in Europe, our gross margin has remained relatively stable at 5.5%, 5.5% and 5.4% in 2005, 2004 and 2003, respectively. This reflects our ongoing product and geographic diversification strategy, as well as strong inventory management and improvements in our Asia-Pacific and Latin America businesses, partially offset by the impact of the competitive pricing environment especially in North America and Europe. We continuously evaluate and modify our pricing policies and certain terms and conditions offered to our customers to reflect those being imposed by our vendors and general market conditions. As we continue to evaluate our existing pricing policies and make future changes, if any, we may experience tempered or negative sales growth in the near term. In addition, increased competition and any retractions or softness in economies throughout the world may hinder our ability to maintain and/or improve gross margins from the levels realized in recent periods.

Total SG&A expenses were \$1.2 billion, \$1.1 billion and \$1.0 billion in 2005, 2004 and 2003, respectively. In 2005, SG&A increased by \$74.9 million primarily due to the additions of Tech Pacific and AVAD, implementation costs associated with our outsourcing and optimization plan in North America of \$16.9 million, costs associated with the integration of Tech Pacific of \$6.0 million (see Note 3 to our consolidated financial statements) and increased expenses required to support the growth of our business, partially offset by our continued cost control measures and the savings realized from the North American outsourcing and optimization plan. In 2004, SG&A expenses increased by \$75.8 million compared to 2003 primarily due to the translation impact of the European currencies of approximately \$36 million, realignment costs of approximately \$11 million associated with downsizing and relocating activities in our under-performing German-based networking unit, the addition of approximately \$15 million in operating expenses related to Tech Pacific, which was acquired on November 10, 2004, and increased expenses required to support the growth of our business, partially offset by the benefits of the comprehensive profit enhancement program, the reduction of related implementation costs of \$23.4 million from 2003 (see Note 3 to our consolidated financial statements) and a \$20 million charge in 2003 related to the bankruptcy of Micro Warehouse in the U.S., one of our former customers. As a percentage of net sales, total SG&A expenses decreased to 4.4% in 2004 and 4.1% in 2005 compared to 4.6% in 2003, primarily due to the economies of scale from the higher level of

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revenue, savings from our comprehensive profit enhancement program, other actions we have taken, and continued cost control measures.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, or FAS 123R. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, Share-Based Payment, which further explains FAS 123R. FAS 123R as amended requires compensation cost relating to all share-based payments to employees to be recognized in the financial statements based on their fair values and is effective for our fiscal year beginning January 1, 2006. Based on our evaluation of the requirements of FAS 123R, as well as our long-term incentive compensation strategies, we currently estimate that the adoption of FAS 123R will have an impact of approximately \$30 million on our operating expenses in 2006.

As previously discussed, reorganization costs were \$16.3 million and \$21.6 million in 2005 and 2003, respectively, and in 2004 we had a net credit of \$2.9 million relating primarily to favorable resolution of obligations related to prior actions (see Note 3 to our consolidated financial statements). We may pursue other business process or organizational changes in our business, which may result in additional charges related to consolidation of facilities, restructuring of business functions and workforce reductions in the future.

Our operating margin increased to 1.3% in 2005 from 1.1% and 0.7% in 2004 and 2003, respectively, primarily reflecting the reduction of SG&A expenses while maintaining stable gross margins during this period as discussed above. Our North American operating margin increased to 1.3% in 2005 from 1.1% in 2004 and 0.9% in 2003. The increase in operating margin for North America in 2005 compared to 2004 reflects the economies of scale from the higher volume of business, the expansion of adjacent product markets with higher margins, a broad set of margin initiatives and ongoing costs containment, partially offset by competitive pressures on pricing and reorganization and other major-program costs incurred. The increase in operating margin for North America in 2004 compared to 2003 reflects the impact of the charge related to the Micro Warehouse bankruptcy of approximately 0.2% of North America revenue in 2003, as well as economies of scale from the higher volume of business, the benefits of our comprehensive profit enhancement program and reduction of the related implementation costs, partially offset by significant competitive pressures on pricing. Reorganization and other major-program costs were approximately 0.2% of North America net sales in 2005 compared to a net benefit of less than 0.1% in 2004 and a net charge of approximately 0.3% in 2003. Our European operating margin increased to 1.4% in 2005 from 1.3% and 0.9% in 2004 and 2003, respectively. Operating margin for Europe in 2005 was positively impacted by the increase in net sales and the decrease in operating expenses, partially offset by the economic softness and competitive environment. Operating margin for Europe in 2004 and 2003 was positively impacted by improvements from our profit enhancement program and other actions we have taken, a reduction in related implementation costs, and economies of scale from the higher volume of business, partially offset by the competitive environment. Our Asia-Pacific operating margin (loss) was 0.8%, 0.4% and (0.4%) in 2005, 2004 and 2003, respectively. Operating results in the Asia-Pacific region deteriorated in 2003, largely due to higher inventory and bad debt losses in China, and intense price competition particularly in our components business, which were exacerbated by the impacts of SARS and the Gulf War on the region. The improvement in our Asia-Pacific operating margins in 2004 reflects the contribution of Tech Pacific, as well as improvements and strengthening of our operating model. The Asia-Pacific operating margins further improved in 2005 primarily due to the benefits from the successful integration of Tech Pacific, partially offset by the integration costs incurred (approximately 0.3% of Asia-Pacific net sales). We believe the addition of Tech Pacific and continued process improvements will improve profitability over the long-term. Our Latin American operating margin (loss) was 1.6% in 2005 compared to 1.2% in 2004 and (0.1%) in 2003. Strengthening of our business processes in Latin America during 2005 and 2004 positively impacted operating margin in this region. The negative operating margin in 2003 was primarily attributable to the market softness and competitive pricing pressures in the region as well as higher bad debt expense and inventory related issues.

Other expense (income) consisted primarily of interest, losses on sales of receivables under our accounts receivable financing facilities, foreign currency exchange gains and losses, and other non-operating gains and losses. We incurred net other expense of \$60.2 million, or 0.2% as a percentage of net sales, in 2005 compared to \$20.1 million, or 0.1% as a percentage of net sales, in 2004 and \$40.4 million, or 0.2% as a percentage of net

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sales, in 2003. The increase in 2005 compared to 2004 primarily reflects a foreign-exchange gain of \$23.1 million on a forward currency exchange contract related to our Australian dollar-denominated purchase of Tech Pacific in 2004, a loss of \$8.4 million on the redemption of the senior subordinated notes and related interest-rate swap agreements in 2005, increased net debt levels primarily associated with the acquisitions of Tech Pacific and AVAD, and higher interest rates, partially offset by a decrease in losses on sales of receivables under our accounts receivable-based financing facilities. The decrease in 2004 compared to 2003 primarily reflects the foreign-exchange gain of \$23.1 million in 2004.

Our provision for income taxes in 2005 and 2004 was \$85.0 million and \$43.4 million, respectively, compared to a benefit from income taxes of \$33.4 million in 2003. Our provisions included benefits of \$2.4 million, \$41.1 million and \$70.5 million in 2005, 2004 and 2003, respectively for the reversal of previously accrued federal and state income taxes relating to the gains realized on the sale of Softbank common stock in 2000 and 1999 (see Note 8 to our consolidated financial statements). Our effective tax provision rate in 2005 and 2004 was 28% and 16%, respectively, compared to an effective tax benefit rate of 29% in 2003. The changes in our effective tax rate are primarily attributable to these reversals of the previously accrued U.S. federal and certain state income taxes in 2004 and 2003, as well as changes in the proportion of income earned within the various taxing jurisdictions and our ongoing tax strategies.

Quarterly Data; Seasonality

Our quarterly operating results have fluctuated significantly in the past and will likely continue to do so in the future as a result of various factors as more fully described in Item 1A. Risk Factors.

The following table sets forth certain unaudited quarterly historical financial data for each of the eight quarters in the two years ended December 31, 2005. This unaudited quarterly information has been prepared on the same basis as the annual information presented elsewhere herein and, in our opinion, includes all adjustments necessary for a fair statement of the selected quarterly information. This information should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. The operating results for any quarter shown are not necessarily indicative of results for any future period.

	Net Sales	Gross Profit	Income From Operations	Income Before Income Taxes	Net Income	Diluted Earnings Per Share
(In millions, except per share data)						
Fiscal Year Ended December 31, 2005						
Thirteen Weeks Ended:(1)						
April 2, 2005	\$ 7,052.0	\$ 379.5	\$ 76.2	\$ 61.5	\$ 42.4	\$ 0.26
July 2, 2005	6,840.5	367.5	71.3	57.2	41.7	0.26
October 1, 2005	6,959.3	381.8	82.9	62.3	48.4	0.29
December 31, 2005	7,956.5	446.2	131.7	120.9	84.4	0.51
Fiscal Year Ended January 1, 2005						
Thirteen Weeks Ended:(2)						
April 3, 2004	\$ 6,275.6	\$ 341.4	\$ 66.6	\$ 55.2	\$ 37.6	\$ 0.24
July 3, 2004	5,716.6	311.4	47.9	38.0	25.9	0.16
October 2, 2004	6,016.4	329.6	60.2	54.9	77.3	0.49
January 1, 2005	7,453.4	419.5	108.7	115.2	79.2	0.48

(1)

Includes impact of charges related to reorganization costs and other major-program costs as follows (pre-tax): first quarter, \$9.8 million; second quarter, \$14.0 million; third quarter, \$7.2 million; fourth quarter, \$8.2 million. The second quarter also includes the reversal of Softbank deferred tax liability of \$2.2 million. The third quarter also includes a loss on the redemption of senior subordinated notes of

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\$8.4 million. The fourth quarter also includes the reversal of Softbank deferred tax liability of \$0.2 million.

(2) Includes impact of charges related to reorganization costs and adjustments (credits) related to previous restructuring actions as follows (pre-tax): first quarter, \$0.1 million; second quarter, \$0.1 million; third quarter, \$(2.7) million; fourth quarter, \$(0.4) million. The third quarter also includes a foreign-exchange gain of \$4.3 million related to the acquisition of Tech Pacific in Asia-Pacific and the reversal of Softbank deferred tax liability of \$40.0 million. The fourth quarter also includes a foreign-exchange gain of \$18.8 million related to the acquisition of Tech Pacific in Asia-Pacific and the reversal of Softbank deferred tax liability of \$1.1 million.

Liquidity and Capital Resources***Cash Flows***

We have financed our growth and cash needs largely through income from operations, borrowings under revolving credit and other facilities, sales of accounts receivable through established accounts receivable financing facilities, trade and supplier credit and proceeds from senior subordinated notes issued in 2001. The following is a detailed discussion of our cash flows for the years ended December 31, 2005, January 1, 2005 and January 3, 2004.

Our cash and cash equivalents totaled \$324.5 million and \$398.4 million at December 31, 2005 and at January 1, 2005, respectively.

Net cash provided by operating activities was \$8.2 million and \$360.9 million in 2005 and 2004, respectively, compared to net cash used by operating activities of \$94.8 million in 2003. The net cash provided by operating activities in 2005 principally reflects our net earnings and reduction of other current assets, partially offset by a decrease in accrued expenses and an increase in our working capital. The reduction of other current assets and accrued expenses primarily relates to the settlement of a currency interest-rate swap and related collateral deposits. The increase in working capital largely reflects the growth of our business in 2005 and a decrease in days of accounts payable outstanding at the end of 2005 compared to the end of 2004. The net cash provided by operating activities in 2004 was primarily due to net income and a net decrease in working capital, which reflects our continued focus on working capital management. The net cash used by operating activities in 2003 principally reflects an increase in inventory and a decrease in accrued expenses, partially offset by net income and a decrease in accounts receivable. The increase in inventory largely reflects increased inventory-stocking levels in response to improved demand, and purchases for strategic growth areas. The reduction of accrued expenses primarily relates to the settlement of a currency interest rate swap in the first quarter of 2003 and payments of profit enhancement program costs. The decrease in accounts receivable reflects strong working capital management during the year. Our debt levels may increase and/or our cash balance may decrease if we experience an increase in our working capital days or if we experience significant sales growth.

Net cash used by investing activities was \$179.4 million, \$411.5 million and \$36.9 million in 2005, 2004 and 2003, respectively. The net cash used by investing activities in 2005 and 2004 was primarily due to business acquisitions of \$140.6 million and \$402.2 million, respectively, and capital expenditures of \$38.8 million and \$37.0 million, respectively. The net cash used by investing activities in 2003 was primarily due to capital expenditures of \$35.0 million. Our relatively flat capital expenditures over the period from 2003 to 2005 reflects the benefits of our previous profit enhancement program which has enabled us to streamline operations and optimize facilities as well as our decision to outsource certain IT infrastructure functions which have reduced our capital requirements. We presently expect our capital expenditures to be approximately \$50 million in 2006.

Net cash provided by financing activities was \$120.4 million, \$149.5 million and \$9.3 million in 2005, 2004 and 2003, respectively. The net cash provided by financing activities in 2005 primarily reflects the net proceeds from our debt facilities of \$305.8 million and proceeds from exercise of stock options of \$49.3 million, partially offset by the redemption of our senior subordinated notes of \$205.8 million. The

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increase in debt in 2005 primarily reflects higher financing needs as a result of higher volume of business and the acquisition of AVAD. The net cash provided by financing activities in 2004 primarily reflects proceeds received from the exercise of stock options of \$84.5 million and an increase in book overdrafts of \$77.7 million. The net cash provided by financing activities in 2003 primarily reflects proceeds received from the exercise of stock options of \$10.3 million.

Acquisitions

We account for all acquisitions after June 30, 2001 in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. The results of operations of these businesses have been consolidated with our results of operations beginning on their acquisition dates.

In July 2005, we acquired certain net assets of AVAD, the leading distributor for solution providers and custom installers serving the home automation and entertainment market in the U.S. This strategic acquisition accelerated our entry into the adjacent consumer electronics market and has improved operating margin in our North American operations. AVAD was acquired for an initial purchase price of \$136.4 million. The purchase agreement also requires us to pay the seller earn-out payments of up to \$80 million over the next three years, if certain performance levels are achieved, and additional payments of up to \$100 million are possible in 2010, if extraordinary performance levels are achieved over the five-year period from the date of acquisition. Such payment, if any, will be recorded as an adjustment to the initial purchase price. The purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date, resulting in the recording of \$47.6 million of goodwill, \$24.2 million of trademarks with indefinite lives and \$28.7 million of vendor relationships and other amortizable intangible assets with average estimated useful lives of approximately 10 years. In December 2005, we recorded a payable of \$30.0 million to the sellers for the initial earn-out in accordance with the provisions of the purchase agreement, resulting in an increase of goodwill for the same amount (see Note 4 to our consolidated financial statements).

During 2005, we also acquired the remaining shares of stock held by minority shareholders of our subsidiaries in New Zealand and India. The total purchase price for these acquisitions consisted of cash payments of \$0.6 million, resulting in the recording of approximately the same amount of goodwill in Asia-Pacific.

In November 2004, we acquired all of the outstanding shares of Tech Pacific, one of Asia-Pacific's largest technology distributors, for 730 million Australian dollars (approximately \$554 million at closing date) for cash and the assumption of debt. The purchase price has been allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date, resulting in the recording of \$308.5 million of goodwill and identifiable intangible assets consisting of customer and vendor relationships of \$36.0 million with an estimated useful life of approximately 6 years. During 2005, we made an adjustment to Tech Pacific's purchase price allocation. This adjustment reflected additional liabilities of \$3.4 million for costs associated with the reductions of Tech Pacific's workforce and closure and consolidation of Tech Pacific facilities, which were made redundant by the acquisition. This adjustment resulted in an increase of goodwill for that same amount (see Note 4 to our consolidated financial statements).

In July 2004, we acquired substantially all of the assets and assumed certain liabilities of Nimax, a privately-held distributor of automatic identification and data capture and point-of-sale solutions. The purchase price, consisting of a cash payment of \$8.7 million in 2004 and \$1.0 million payable on or before October 31, 2006, was allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date, resulting in the recording of \$0.9 million of other amortizable intangible assets primarily related to customer and vendor relationships. No goodwill was recorded in this transaction. In addition to the initial cash payment, the purchase agreement requires us to pay the seller up to \$6 million at the end of two years, based on a specified earn-out formula, which will be recorded as an adjustment to the purchase price, if paid.

Table of Contents***Capital Resources***

We believe that our existing sources of liquidity, including cash resources and cash provided by operating activities, supplemented as necessary with funds available under our credit arrangements, will provide sufficient resources to meet our present and future working capital and cash requirements for at least the next twelve months.

On-Balance Sheet Capital Resources

On July 29, 2004, we entered into a revolving accounts receivable-based financing program in the U.S., which provides for up to \$500 million in borrowing capacity secured by substantially all U.S.-based receivables. At our option, the program may be increased to as much as \$600 million at any time prior to July 29, 2006. The interest rate on this facility is dependent on the designated commercial paper rates plus a predetermined margin. This facility expires on March 31, 2008. At December 31, 2005 and January 1, 2005, we had borrowings of \$304.3 million and \$0, respectively, under our revolving accounts receivable-based financing program.

At December 31, 2005, we have a trade accounts receivable-based financing program in Canada, which matures on August 31, 2008 and provides for borrowing capacity up to 150 million Canadian dollars, or approximately \$129 million. The interest rate on this facility is dependent on the designated commercial paper rates plus a predetermined margin at the drawdown date. At December 31, 2005 and January 1, 2005, we had borrowings of \$38.7 million and \$0, respectively, under this trade accounts receivable-based financing program.

In June 2002, we entered into a three-year European revolving trade accounts receivable backed financing facility supported by the trade accounts receivable of a subsidiary in Europe for Euro 107 million, or approximately \$126 million at December 31, 2005, with a financial institution that has an arrangement with a related issuer of third-party commercial paper. On July 1, 2005, we extended this facility under the same terms and conditions for another two years. In January 2004, we entered into another three-year European revolving trade accounts receivable-backed financing facility supported by the trade accounts receivable of another subsidiary in Europe for Euro 230 million, or approximately \$271 million at December 31, 2005, with the same financial institution and related issuer of third-party commercial paper. On January 13, 2006, we extended this facility under the same terms and conditions for another three years. Both of these European facilities require certain commitment fees and borrowings under both facilities incur financing costs at rates indexed to EURIBOR. At December 31, 2005 and January 1, 2005, we had no borrowings under these European revolving trade accounts receivable-backed financing facilities.

In November 2004, we assumed from Tech Pacific a multi-currency revolving trade accounts receivable-backed financing facility in Asia-Pacific supported by the trade accounts receivable of two subsidiaries in the region for 200 million Australian dollars (increased to 250 million Australian dollars in April 2005, or approximately \$183 million at December 31, 2005), with a financial institution that has an arrangement with a related issuer of third-party commercial paper that expires in June 2008. The interest rate is dependent upon the currency in which the drawing is made and is related to the local short-term bank indicator rate for such currency. This facility has no fixed repayment terms prior to maturity. At December 31, 2005 and January 1, 2005, we had borrowings of \$112.6 million and \$132.3 million, respectively, under this facility.

Our ability to access financing under our North American, European and Asia-Pacific facilities is dependent upon the level of eligible trade accounts receivable and the level of market demand for commercial paper. At December 31, 2005, our actual aggregate available capacity under these programs was approximately \$962 million based on eligible accounts receivable, of which approximately \$455.6 million of such capacity was outstanding. We could, however, lose access to all or part of our financing under these facilities under certain circumstances, including: (a) a reduction in credit ratings of the third-party issuer of commercial paper or the back-up liquidity providers, if not replaced or (b) failure to meet certain defined eligibility criteria for the trade accounts receivable, such as receivables must be assignable and free of liens and dispute or set-off rights. In addition, in certain situations, we could lose access to all or part of our financing with respect to the January 2004 European facility as a result of the rescission of our authorization to

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collect the receivables by the relevant supplier under applicable local law. Based on our assessment of the duration of these programs, the history and strength of the financial partners involved, other historical data, various remedies available to us under these programs, and the remoteness of such contingencies, we believe that it is unlikely that any of these risks will materialize in the near term.

In July 2005, we terminated our \$150 million revolving senior unsecured credit facility with a bank syndicate that was scheduled to expire in December 2005. On the same day, we entered into a new three-year \$175 million revolving senior unsecured credit facility with a new bank syndicate. The interest rate on the new revolving senior unsecured credit facility is based on LIBOR, plus a predetermined margin that is based on our debt ratings and our leverage ratio. At December 31, 2005 and January 1, 2005, we had no borrowings under the current and the former credit facility, respectively. The current and the former credit facility can also be used to support letters of credit. At December 31, 2005 and January 1, 2005, letters of credit totaling \$21.2 million and \$24.3 million, respectively, were issued to certain vendors and financial institutions to support purchases by our subsidiaries, payment of insurance premiums and flooring arrangements. Our available capacity under the current agreement is reduced by the amount of any issued and outstanding letters of credit.

In December 2005, our 80 million Australian dollars multi-currency secured revolving loan facility matured. On the same day, we entered into a new three-year 100 million Australian dollars, or approximately \$73 million at December 31, 2005, senior unsecured credit facility with a bank syndicate. The interest rate on the new revolving senior unsecured credit facility is based on Australian or New Zealand LIBOR, depending on the funding currency, plus a predetermined margin that is based on our debt ratings and our leverage ratio. At December 31, 2005 and January 1, 2005, we had borrowings of \$14.4 million under the current facility and \$0 borrowings under the former credit facility, respectively. The current and the former credit facility can also be used to support letters of credit. At December 31, 2005 and January 1, 2005, letters of credit totaling \$0 and \$24.1 million, respectively, were issued to certain financial institutions to support purchases by our subsidiaries or local borrowings made available to certain of our subsidiaries in the Asia-Pacific region. Our available capacity under the current agreement is reduced by the amount of any issued and outstanding letters of credit.

On August 16, 2001, we sold \$200 million of 9.875% senior subordinated notes due 2008 at an issue price of 99.382%, resulting in net cash proceeds of approximately \$195.1 million, net of issuance costs of approximately \$3.7 million. Interest on the notes was payable semi-annually in arrears on each February 15 and August 15. On the same date, we also entered into interest-rate swap agreements with two financial institutions, the effect of which was to swap our fixed-rate obligation on our senior subordinated notes for a floating rate obligation equal to 90-day LIBOR plus 4.260%. At January 1, 2005, the marked-to-market value of the interest-rate swap amounted to \$14.5 million and was recorded in other assets with an offsetting adjustment to the hedged debt, bringing the total carrying value of the senior subordinated notes to \$213.9 million at January 1, 2005.

On August 15, 2005, we redeemed all of our outstanding \$200 million of 9.875% senior subordinated notes due 2008 in accordance with the terms of our indenture. The notes were redeemed at a redemption price of 104.938% of the principal amount of each note, plus accrued but unpaid interest. Concurrently with the redemption of the notes, we terminated our position under the interest-rate swap agreements. These actions resulted in an aggregate loss of approximately \$8.4 million consisting of a loss of \$9.9 million on the redemption of the senior subordinated notes and \$2.6 million on the write-off of the remaining unamortized debt issuance and discount costs; partially offset by the gains of \$4.1 million on the settlement of the interest-rate swap agreements. The redemption of the notes was financed through our existing borrowing capacity and cash.

We also have additional lines of credit, short-term overdraft facilities and other credit facilities with various financial institutions worldwide, which provide for borrowing capacity aggregating approximately \$593 million at December 31, 2005. Most of these arrangements are on an uncommitted basis and are reviewed periodically for renewal. At December 31, 2005 and January 1, 2005, we had approximately \$134.8 million and \$168.6 million, respectively, outstanding under these facilities. At December 31, 2005 and January 1, 2005, letters of credit totaling approximately \$53.4 million and \$30.5 million, respectively, were

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issued principally to certain vendors to support purchases by our subsidiaries. The issuance of these letters of credit reduces our available capacity under these agreements by the same amount. The weighted average interest rate on the outstanding borrowings under these facilities was 6.1% and 5.0% per annum at December 31, 2005 and January 1, 2005, respectively.

Off-Balance Sheet Capital Resources

We have a revolving trade accounts receivable-based facility in Europe, which provides up to approximately \$209 million of additional financing capacity. This facility expires in 2007. At December 31, 2005 and January 1, 2005, we had no trade accounts receivable sold to and held by third parties under our European program. Our financing capacity under the European program is dependent upon the level of our trade accounts receivable eligible to be transferred or sold into the accounts receivable financing program. At December 31, 2005, our actual aggregate capacity under this program, based on eligible accounts receivable, was approximately \$207 million. We believe that there are sufficient eligible trade accounts receivable to support our anticipated financing needs under the remaining European accounts receivable financing program.

Covenant Compliance

We are required to comply with certain financial covenants under some of our on-balance sheet financing facilities, as well as our European off-balance sheet accounts receivable-based factoring facility, including minimum tangible net worth, restrictions on funded debt and interest coverage and trade accounts receivable portfolio performance covenants, including metrics related to receivables and payables. We are also restricted in the amount of additional indebtedness we can incur, dividends we can pay, as well as the amount of common stock that we can repurchase annually. At December 31, 2005, we were in compliance with all covenants or other material requirements set forth in our accounts receivable financing programs and credit agreements or other agreements with our creditors discussed above.

As is customary in trade accounts receivable-based financing arrangements, a reduction in credit ratings of the third-party issuer of commercial paper or a back-up liquidity provider (which provides a source of funding if the commercial paper market cannot be accessed) could result in an adverse change in, or loss of, our financing capacity under these programs if the commercial paper issuer and/or liquidity back-up provider is not replaced. Loss of such financing capacity could have a material adverse effect on our financial condition, results of operations and liquidity. However, based on our assessment of the duration of these programs, the history and strength of the financial partners involved, other historical data, and the remoteness of such contingencies, we believe it is unlikely that any of these risks will materialize in the near term.

Table of Contents**Contractual Obligations**

The following summarizes our financing capacity and contractual obligations at December 31, 2005 (in millions), and the effect of scheduled payments on such obligations are expected to have on our liquidity and cash flows in future periods. The amounts do not include interest, substantially all of which is incurred at variable rates.

Contractual Obligations	Total Capacity	Balance Outstanding	Payments Due by Period			
			Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
North American revolving accounts receivable-based financing facilities(1)	\$ 629.0	\$ 343.0	\$	\$ 343.0	\$	\$
European revolving trade accounts receivable-backed financing facilities(1)	397.0					
Asia-Pacific revolving trade accounts receivable-backed financing facilities(1)	183.0	112.6		112.6		
Revolving senior unsecured credit facilities(2)	248.0	14.4	14.4			
Bank overdrafts and other(3)	593.0	134.8	134.8			
Subtotal	2,050.0	604.8	149.2	455.6		
European accounts receivable financing programs(4)	209.0					
Minimum payments under operating leases and IT and business process outsourcing agreements(5)	433.7	433.7	87.2	151.0	113.9	81.6
Total	\$ 2,692.7	\$ 1,038.5	\$ 236.4	\$ 606.6	\$ 113.9	\$ 81.6

- (1) The capacity amount in the table above represents the maximum capacity available under these facilities. Our actual capacity is dependent upon the actual amount of eligible trade accounts receivable that may be used to support these facilities. As of December 31, 2005, our actual aggregate capacity under these programs based on eligible accounts receivable was approximately \$962 million (see Note 7 to our consolidated financial statements).
- (2) The capacity amount in the table above represents the maximum capacity available under these facilities. These facilities can also be used to support letters of credit. At December 31, 2005, letters of credit totaling \$21.2 million were issued to certain vendors to support purchases by our subsidiaries and to certain financial institutions to support banking lines for certain subsidiaries, or local borrowings from banks made available to certain of our subsidiaries. The issuance of these letters of credit reduces our available capacity by the same amount.

- (3) Certain of these programs can also be used to support letters of credit. At December 31, 2005, letters of credit totaling approximately \$53.4 million were issued to certain vendors to support purchases by our subsidiaries. The issuance of these letters of credit also reduces our available capacity by the same amount.
- (4) The total capacity amount in the table above represents the maximum capacity available under these programs. Our actual capacity is dependent upon the actual amount of eligible trade accounts receivable that may be transferred or sold into these programs. As of December 31, 2005, our actual aggregate capacity under these programs based on eligible accounts receivable was approximately \$207 million.
- (5) In December 2002, we entered into an agreement with a third-party provider of IT outsourcing services. The services to be provided include mainframe, major server, desktop and enterprise storage operations, wide-area and local-area network support and engineering; systems management services; help desk

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services; and worldwide voice/ PBX. This agreement expires in December 2009, but is cancelable at our option subject to payment of termination fees. In September 2005, we entered into an agreement with a leading global business process outsource service provider. The services to be provided include selected North America positions in finance and shared services, customer service, vendor management and selected U.S. positions in technical support and inside sales (excluding field sales and management positions). This agreement expires in September 2010, but is cancelable at our option subject to payment of termination fees. Additionally, we lease the majority of our facilities and certain equipment under noncancelable operating leases. Renewal and purchase options at fair values exist for a substantial portion of the leases. Amounts in this table represent future minimum payments on operating leases that have remaining noncancelable lease terms in excess of one year as well as under the IT and business process outsourcing agreements.

Our employee benefit plans permit eligible employees to make contributions up to certain limits, which are matched by us at stipulated percentages. Because our commitment under these plans is not a fixed amount, they have not been included in the contractual obligations table.

Other Matters

In December 1998, we purchased 2,972,400 shares of common stock of Softbank for approximately \$50.3 million. During December 1999, we sold approximately 35% of our original investment in Softbank common stock for approximately \$230.1 million, resulting in a pre-tax gain of approximately \$201.3 million, net of expenses. In January 2000, we sold an additional approximately 15% of our original holdings in Softbank common stock for approximately \$119.2 million, resulting in a pre-tax gain of approximately \$111.5 million, net of expenses. In March 2002, we sold our remaining shares of Softbank common stock for approximately \$31.8 million, resulting in a pre-tax gain of \$6.5 million, net of expenses. We generally used the proceeds from these sales to reduce existing indebtedness. The realized gains, net of expenses, associated with the sales of Softbank common stock in March 2002, January 2000 and December 1999 totaled \$4.1 million, \$69.4 million and \$125.2 million, respectively, net of deferred taxes of \$2.4 million, \$42.1 million and \$76.1 million, respectively (see Note 8 to our consolidated financial statements).

The Softbank common stock was sold in the public market by certain of our foreign subsidiaries, which are located in a low-tax jurisdiction. At the time of each sale, we concluded that U.S. taxes were not currently payable on the gains based on our internal assessment and opinions received from our outside advisors. However, in situations involving uncertainties in the interpretation of complex tax regulations by various taxing authorities, we provide for tax liabilities unless we consider it probable that these taxes will not be due. The level of opinions received from our outside advisors and our internal assessment did not allow us to reach that conclusion on this matter and the deferred taxes were provided accordingly. Our U.S. federal tax returns were closed in September 2004 and 2003 for the fiscal years 2000 and 1999, respectively, and certain state returns for fiscal years 2000 and 1999 were closed in the third and fourth quarters of 2004, which resolved these matters for tax purposes in those jurisdictions. Accordingly, we reversed the related federal and certain state deferred tax liabilities of \$40.0 million and \$1.1 million associated with the gains on the 2000 and 1999 sales in the third and fourth quarters of 2004, respectively, while we reversed the related federal deferred tax liability of \$70.5 million associated with the gain on the 1999 sale in the third quarter of 2003, thereby reducing our income tax provisions for both years in the consolidated statement of income. In 2005, we had settled and paid the tax liabilities of \$1.4 million and \$2.8 million associated with the gains realized in 2000 and 1999, respectively, with certain state tax jurisdictions and favorably resolved and reversed tax liabilities of \$1.0 million and \$1.4 million related to tax years 2000 and 1999, respectively, for such tax jurisdictions. Although we review our assessments of the remaining tax liability on a regular basis, at December 31, 2005, we cannot currently determine when the remaining tax liabilities of \$2.5 million (\$2.7 million including estimated interest) related to these gains will be finally resolved with the taxing authorities, or if the taxes will ultimately be paid. As a result, we continue to provide for these tax liabilities. If we are successful in obtaining a favorable resolution of this matter, our tax provision would be reduced to reflect the elimination of some or all of these deferred tax liabilities. However, in the event of an unfavorable resolution, we believe that we will be able to fund any such taxes that may be assessed on this matter with our available sources of liquidity. The

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U.S. Internal Revenue Service is in the process of examining our federal tax returns for fiscal years 2001 to 2003.

During 2002 and 2003, one of our Latin American subsidiaries was audited by the Brazilian taxing authorities in relation to certain commercial taxes. As a result of this audit, the subsidiary received an assessment of 30.6 million Brazilian reais, including interest and penalties computed through December 31, 2005, or approximately \$13.1 million at December 31, 2005, alleging these commercial taxes were not properly remitted for the subsidiary's purchase of imported software during the period January through September 2002. The Brazilian taxing authorities may make similar claims for periods subsequent to September 2002. Additional assessments for periods subsequent to September 2002, if received, may be significant either individually or in the aggregate. It is management's opinion, based upon the opinions of outside legal counsel, that we have valid defenses to the assessment of these taxes on the purchase of imported software for the 2002 period at issue or any subsequent period. Although we are vigorously pursuing administrative and judicial action to challenge the assessment, no assurance can be given as to the ultimate outcome. An unfavorable resolution of this matter is not expected to have a material impact on our financial condition, but depending upon the time period and amounts involved it may have a material negative effect on our consolidated results of operations or cash flows.

We received an informal inquiry from the SEC during the third quarter of 2004. The SEC's focus to date has been related to certain transactions with McAfee, Inc. (formerly Network Associates, Inc. or NAI) from 1998 through 2000. We also received subpoenas from the U.S. Attorney's office for the Northern District of California (Department of Justice) in connection with its grand jury investigation of NAI, which seek information concerning these transactions. On January 4, 2006, McAfee and the SEC made public the terms of a settlement they had reached with respect to McAfee. We continue to cooperate fully with the SEC and the Department of Justice in their inquiries. We are engaged in discussions with the SEC toward a possible resolution of matters concerning these NAI-related transactions. We cannot predict with certainty the outcome of these discussions, nor their timing, nor can we reasonably estimate the amount of any loss or range of loss that might be incurred as a result of the resolution of these matters with the SEC and the Department of Justice. Such amounts may be material to our consolidated results of operations or cash flows.

Transactions with Related Parties

In 2005, we have loans receivable from certain of our non-executive associates. These loans, individually ranging up to \$0.3 million, have interest rates ranging from 2.84% to 6.23% per annum and are payable up to six years. Loans to executive officers, unless granted prior to their election to such position, were granted and approved by the Human Resources Committee of our Board of Directors prior to July 30, 2002, the effective date of the Sarbanes-Oxley Act of 2002. No material modification or renewals to these loans to executive officers have been made since that date or subsequent to the employee's election as an executive officer, if later. At December 31, 2005 and January 1, 2005, our employee loans receivable balance was \$0.6 million and \$0.5 million, respectively.

In July 2005, we assumed from AVAD agreements with certain representative companies owned by the former owners of AVAD, who are now employed with us. These include agreements with two of the representative companies to sell products on our behalf for a commission. In fiscal 2005, total sales generated by these companies were approximately \$8.2 million, resulting in our recording of a commission expense of approximately \$0.2 million. In addition, we also assumed an operating lease agreement for a facility in Taunton, Massachusetts owned by the former owners of AVAD with an annual rental expense of approximately \$0.2 million up to January 2024. In fiscal 2005, rent expense under this lease was approximately \$0.1 million.

Table of Contents**New Accounting Standards**

Refer to Note 2 to consolidated financial statements for the discussion of new accounting standards.

Market Risk

We are exposed to the impact of foreign currency fluctuations and interest rate changes due to our international sales and global funding. In the normal course of business, we employ established policies and procedures to manage our exposure to fluctuations in the value of foreign currencies and interest rates using a variety of financial instruments. It is our policy to utilize financial instruments to reduce risks where internal netting cannot be effectively employed. It is our policy not to enter into foreign currency or interest rate transactions for speculative purposes.

Our foreign currency risk management objective is to protect our earnings and cash flows resulting from sales, purchases and other transactions from the adverse impact of exchange rate movements. Foreign exchange risk is managed by using forward contracts to offset exchange risk associated with receivables and payables. By policy, we maintain hedge coverage between minimum and maximum percentages. Currency interest rate swaps are used to hedge foreign currency denominated principal and interest payments related to intercompany and third-party loans. During 2005, hedged transactions were denominated in U.S. dollars, Canadian dollars, euros, pounds sterling, Danish krone, Hungarian forint, Norwegian kroner, Swedish krona, Swiss francs, Australian dollars, Indian rupees, Malaysian ringgit, New Zealand dollars, Singaporean dollars, Thai baht, Brazilian reais, Chilean peso and Mexican peso.

We are exposed to changes in interest rates primarily as a result of our long-term debt used to maintain liquidity and finance working capital, capital expenditures and business expansion. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve our objectives we use a combination of fixed- and variable-rate debt and interest rate swaps. As of December 31, 2005 and January 1, 2005, substantially all of our outstanding debt had variable interest rates.

Market Risk Management

Foreign exchange and interest rate risk and related derivatives used are monitored using a variety of techniques including a review of market value, sensitivity analysis and Value-at-Risk (VaR). The VaR model determines the maximum potential loss in the fair value of market-sensitive financial instruments assuming a one-day holding period. The VaR model estimates were made assuming normal market conditions and a 95% confidence level. There are various modeling techniques that can be used in the VaR computation. Our computations are based on interrelationships between currencies and interest rates (a variance/co-variance technique). The model includes all of our forwards, cross-currency and other interest rate swaps, fixed-rate debt and nonfunctional currency denominated cash and debt (i.e., our market-sensitive derivative and other financial instruments as defined by the SEC). The accounts receivable and accounts payable denominated in foreign currencies, which certain of these instruments are intended to hedge, were excluded from the model.

The VaR model is a risk analysis tool and does not purport to represent actual losses in fair value that will be incurred by us, nor does it consider the potential effect of favorable changes in market rates. It also does not represent the maximum possible loss that may occur. Actual future gains and losses will likely differ from those estimated because of changes or differences in market rates and interrelationships, hedging instruments and hedge percentages, timing and other factors.

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The following table sets forth the estimated maximum potential one-day loss in fair value, calculated using the VaR model (in millions). We believe that the hypothetical loss in fair value of our derivatives would be offset by gains in the value of the underlying transactions being hedged.

	Interest Rate Sensitive Financial Instruments	Currency Sensitive Financial Instruments	Combined Portfolio
VaR as of December 31, 2005	\$ 6.5	\$ 0.2	\$ 4.9
VaR as of January 1, 2005	8.7	0.4	6.5

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning quantitative and qualitative disclosures about market risk is included under the captions Market Risk and Market Risk Management in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**INGRAM MICRO INC.
CONSOLIDATED BALANCE SHEET**

	Fiscal Year End	
	2005	2004
	(Dollars in 000s, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 324,481	\$ 398,423
Trade accounts receivable (less allowances of \$81,831 and \$93,465)	3,186,115	3,037,417
Inventories	2,208,660	2,175,185
Other current assets	352,042	471,137
Total current assets	6,071,298	6,082,162
Property and equipment, net	179,435	199,133
Goodwill	638,416	559,665
Other assets	145,841	85,777
Total assets	\$ 7,034,990	\$ 6,926,737
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 3,476,845	\$ 3,536,880
Accrued expenses	479,422	607,684
Current maturities of long-term debt	149,217	168,649
Total current liabilities	4,105,484	4,313,213
Long-term debt, less current maturities	455,650	346,183
Other liabilities	35,258	26,531
Total liabilities	4,596,392	4,685,927
Commitments and contingencies (Note 10)		
Stockholders equity:		
Preferred Stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued and outstanding		
Class A Common Stock, \$0.01 par value, 500,000,000 shares authorized; 162,366,283 and 158,737,898 shares issued and outstanding in 2005 and 2004, respectively	1,624	1,587
Class B Common Stock, \$0.01 par value, 135,000,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	874,984	817,378
Retained earnings	1,538,761	1,321,855
Accumulated other comprehensive income	23,324	99,990

Unearned compensation (95)

Total stockholders equity	2,438,598	2,240,810
Total liabilities and stockholders equity	\$ 7,034,990	\$ 6,926,737

See accompanying notes to these consolidated financial statements.

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**INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF INCOME**

	Fiscal Year		
	2005	2004	2003
	(Dollars in 000s, except per share data)		
Net sales	\$ 28,808,312	\$ 25,462,071	\$ 22,613,017
Cost of sales	27,233,334	24,060,029	21,389,529
Gross profit	1,574,978	1,402,042	1,223,488
Operating expenses:			
Selling, general and administrative	1,196,516	1,121,571	1,045,725
Reorganization costs	16,276	(2,896)	21,570
	1,212,792	1,118,675	1,067,295
Income from operations	362,186	283,367	156,193
Other expense (income):			
Interest income	(4,249)	(7,354)	(9,933)
Interest expense	48,957	37,509	33,447
Losses on sales of receivables	1,552	5,015	10,206
Net foreign exchange loss (gain)	961	(19,501)	3,695
Loss on redemption of senior subordinated notes	8,413		
Other	4,615	4,422	2,984
	60,249	20,091	40,399
Income before income taxes	301,937	263,276	115,794
Provision for (benefit from) income taxes	85,031	43,375	(33,407)
Net income	\$ 216,906	\$ 219,901	\$ 149,201
Basic earnings per share	\$ 1.35	\$ 1.41	\$ 0.99
Diluted earnings per share	\$ 1.32	\$ 1.38	\$ 0.98

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Common Stock Class A	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total
(Dollars in 000s)						
December 28, 2002	\$ 1,508	\$ 707,689	\$ 952,753	\$ (25,548)	\$ (413)	\$ 1,635,989
Stock options exercised	11	10,251				10,262
Income tax benefit from exercise of stock options		1,151				1,151
Grant of restricted Class A Common Stock		460			(460)	
Issuance of Class A Common Stock related to Employee Stock Purchase Plan	1	474				475
Stock-based compensation expense		785			726	1,511
Comprehensive income			149,201	74,360		223,561
January 3, 2004	1,520	720,810	1,101,954	48,812	(147)	1,872,949
Stock options exercised	66	84,452				84,518
Income tax benefit from exercise of stock options		10,099				10,099
Grant of restricted Class A Common Stock		589			(589)	
Issuance of Class A Common Stock related to Employee Stock Purchase Plan	1	757				758
Stock-based compensation expense		935			736	1,671
Surrender of restricted Class A Common Stock associated with payment of withholding tax		(264)				(264)
Comprehensive income			219,901	51,178		271,079
January 1, 2005	1,587	817,378	1,321,855	99,990		2,240,810
Stock options exercised	36	49,240				49,276
Income tax benefit from exercise of stock options		6,584				6,584
Grant of restricted Class A Common Stock and stock units	1	1,031			(1,032)	

Stock-based compensation expense		751			937	1,688
Comprehensive income			216,906	(76,666)		140,240
December 31, 2005	\$ 1,624	\$ 874,984	\$ 1,538,761	\$ 23,324	\$ (95)	\$ 2,438,598

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Fiscal Year		
	2005	2004	2003
	(Dollars in 000s)		
Cash flows from operating activities:			
Net income	\$ 216,906	\$ 219,901	\$ 149,201
Adjustments to reconcile net income to cash provided (used) by operating activities:			
Depreciation and amortization	64,338	57,657	78,519
Gain on forward currency exchange contract		(23,120)	
Noncash gains on disposals of property and equipment and investments			(980)
Loss on sale of a business			5,067
Noncash charges for interest and compensation	2,775	3,135	3,218
Loss on redemption of senior subordinated notes	8,413		
Deferred income taxes	16,824	(25,853)	(53,903)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Changes in amounts sold under accounts receivable programs		(60,000)	(15,000)
Accounts receivable	(219,692)	(187,073)	95,248
Inventories	(37,428)	(54,178)	(245,070)
Other current assets	122,729	(77,885)	(812)
Accounts payable	10,531	368,156	34,626
Accrued expenses	(177,175)	140,194	(144,902)
Cash provided (used) by operating activities	8,221	360,934	(94,788)
Cash flows from investing activities:			
Purchase of property and equipment	(38,842)	(36,985)	(35,003)
Proceeds from sale of property and equipment			7,826
Proceeds from forward currency exchange contract		23,120	
Acquisitions, net of cash acquired	(140,566)	(402,181)	(9,416)
Other		4,501	(307)
Cash used by investing activities	(179,408)	(411,545)	(36,900)
Cash flows from financing activities:			
Proceeds from exercise of stock options	49,276	84,518	10,262
Redemption of senior subordinated notes	(205,801)		
Net proceeds from (repayments of) debt	305,838	(12,760)	(6,077)
Changes in book overdrafts	(28,932)	77,742	5,144
Cash provided by financing activities	120,381	149,500	9,329

Effect of exchange rate changes on cash and cash equivalents	(23,136)	19,947	14,433
Increase (decrease) in cash and cash equivalents	(73,942)	118,836	(107,926)
Cash and cash equivalents, beginning of year	398,423	279,587	387,513
Cash and cash equivalents, end of year	\$ 324,481	\$ 398,423	\$ 279,587

Supplemental disclosures of cash flow information:

Cash payments during the year:

Interest	\$ 50,281	\$ 34,937	\$ 38,581
Income taxes	65,847	30,755	41,603

See accompanying notes to these consolidated financial statements.

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

Note 1 Organization and Basis of Presentation

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

Note 2 Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Ingram Micro and its subsidiaries (collectively referred to herein as the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

Fiscal Year

The fiscal year of the Company is a 52- or 53-week period ending on the Saturday nearest to December 31. All references herein to 2005, 2004 and 2003 represent the 52-week fiscal year ended December 31, 2005, 52-week fiscal year ended January 1, 2005, and the 53-week fiscal year ended January 3, 2004, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S.) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the financial statement date, and reported amounts of revenue and expenses during the reporting period. Significant estimates primarily relate to the realizable value of accounts receivable, vendor programs, inventories, goodwill, intangible and other long-lived assets, income taxes, and contingencies and litigation. Actual results could differ from these estimates.

Revenue Recognition

Revenue on products shipped is recognized when title and risk of loss transfers, delivery has occurred, the price to the buyer is determinable and collectibility is reasonably assured. Service revenues are recognized upon delivery of the services. Service revenues have represented less than 10% of total net sales for 2005, 2004 and 2003. The Company, under specific conditions, permits its customers to return or exchange products. The provision for estimated sales returns is recorded concurrently with the recognition of revenue. The net impact on gross margin from estimated sales returns is included in allowances against trade accounts receivable in the consolidated balance sheet.

Vendor Programs

Funds received from vendors for price protection, product rebates, marketing/promotion, infrastructure reimbursement and meet competition are recorded as adjustments to product costs, revenue, or selling, general and administrative expenses according to the nature of the program. Some of these programs may extend over one or more quarterly reporting periods. The Company accrues rebates or other vendor incentives as earned based on sales of qualifying products or as services are provided in accordance with the terms of the related program.

The Company sells products purchased from many vendors, but generated approximately 23%, 22% and 24% of its net sales in fiscal years 2005, 2004 and 2003, respectively, from products purchased from Hewlett-

Table of Contents**INGRAM MICRO INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Packard Company. There were no other vendors that represented 10% or more of the Company's net sales in each of the last three years.

Warranties

The Company's suppliers generally warrant the products distributed by the Company and allow returns of defective products, including those that have been returned to the Company by its customers. The Company does not independently warrant the products it distributes; however, local laws might impose warranty obligations upon distributors (such as in the case of supplier liquidation). The Company is obligated to provide warranty protection for sales of certain IT products within the European Union (EU) for up to two years as required under the EU directive where vendors have not affirmatively agreed to provide pass-through protection. In addition, the Company warrants its services, products that it builds-to-order from components purchased from other sources, and its own branded products. Provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. Warranty expense and the related obligations are not material to the Company's consolidated financial statements.

Foreign Currency Translation and Remeasurement

Financial statements of foreign subsidiaries, for which the functional currency is the local currency, are translated into U.S. dollars using the exchange rate at each balance sheet date for assets and liabilities and a weighted average exchange rate for each period for statement of income items. Translation adjustments are recorded in accumulated other comprehensive income, a component of stockholders' equity. The functional currency of the Company's operations in Latin America and certain operations within the Company's Asia-Pacific and European regions is the U.S. dollar; accordingly, the monetary assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenues, expenses, gains or losses are translated at the average exchange rate for the period, and nonmonetary assets and liabilities are translated at historical rates. The resultant remeasurement gains and losses of these operations as well as gains and losses from foreign currency transactions are included in the consolidated statement of income.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and other accrued expenses approximate fair value because of the short maturity of these items. The carrying amounts of outstanding debt issued pursuant to bank credit agreements approximate fair value because interest rates over the relative term of these instruments approximate current market interest rates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Book overdrafts of \$241,989 and \$213,057 as of December 31, 2005 and January 1, 2005, respectively, are included in accounts payable.

Inventories

Inventories are stated at the lower of average cost or market.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives noted below. The Company also capitalizes computer software costs that meet both the definition of internal-use software and defined criteria for capitalization in accordance with Statement of

Table of Contents**INGRAM MICRO INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Position No. 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. Depreciable lives of property and equipment are as follows:

Buildings	40 years
Leasehold improvements	3-17 years
Distribution equipment	5-10 years
Computer equipment and software	3-8 years

Maintenance, repairs and minor renewals are charged to expense as incurred. Additions, major renewals and betterments to property and equipment are capitalized.

Long-Lived and Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-lived Assets, the Company assesses potential impairments to its long-lived assets when events or changes in circumstances indicate that the carrying amount may not be fully recoverable. If required, an impairment loss is recognized as the difference between the carrying value and the fair value of the assets. Identifiable intangible assets are amortized over the life of the assets ranging from 6 to 10 years.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in an acquisition accounted for using the purchase method. The Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142) in 2002. FAS 142 eliminated the amortization of goodwill. FAS 142 requires that after the initial impairment review upon adoption, goodwill should be reviewed at least annually thereafter. In the fourth quarters of 2005, 2004 and 2003, the Company performed its annual impairment tests of goodwill in North America, Europe and Asia-Pacific. The valuation methodologies included, but were not limited to, estimated net present value of the projected future cash flows of these reporting units. In connection with these tests, valuations of the individual reporting units were obtained or updated from an independent third-party valuation firm. No impairment was indicated based on these tests.

The changes in the carrying amount of goodwill for fiscal years 2005 and 2004 are as follows:

	North America	Europe	Asia- Pacific	Latin America	Total
Balance at January 3, 2004	\$ 78,444	\$ 9,308	\$ 156,422	\$	\$ 244,174
Acquisitions		2,610	308,497		311,107
Foreign currency translation	51	857	3,476		4,384
Balance at January 1, 2005	78,495	12,775	468,395		559,665
Acquisitions	77,609	645	3,928		82,182
Foreign currency translation	28	(1,693)	(1,766)		(3,431)
Balance at December 31, 2005	\$ 156,132	\$ 11,727	\$ 470,557	\$	\$ 638,416

The addition to goodwill of \$77,609 in North America for fiscal year 2005 relates to the acquisition of certain net assets of AVAD (see Note 4 for the detailed discussion of the AVAD acquisition).

In 2002, the Company acquired a value-add IT distributor in Belgium. The purchase agreement required payments of an initial purchase price plus additional cash payments up to Euro 1,130 for each of the next three

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years after 2002 based on an earn-out formula. The addition to goodwill of \$2,610 in Europe for fiscal year 2004 represents the amount paid to the sellers for the first and second year's earn-out achievement. During 2005, the Company recorded an estimated payable of \$445 for the final earn-out achievement. This earn-out amount may increase based on the final computation agreed to by the sellers and the Company.

During 2005, the Company acquired the remaining shares of stock held by minority shareholders of its subsidiaries in New Zealand and India. The total purchase price for these acquisitions consisted of cash payments of \$596, resulting in the recording of approximately \$577 of goodwill in Asia-Pacific. In addition, the Company made an adjustment to the purchase price allocation associated with the acquisition of Techpac Holdings Limited, or Tech Pacific. The adjustment reflects additional liabilities of \$3,351 for costs associated with reductions in Tech Pacific's workforce and closure and consolidation of Tech Pacific's facilities, which were made redundant by the acquisition. This adjustment resulted in an increase of goodwill for that same amount (see Note 4 for the detailed discussion of the Tech Pacific acquisition).

During 2005, the Company settled for \$200 a court action filed by several minority shareholders of Ingram Macrotron AG, a German-based distribution company, contesting the adequacy of the original purchase price paid by the Company, resulting in the recording of the same amount of goodwill.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable and derivative financial instruments. Credit risk with respect to trade accounts receivable is limited due to the large number of customers and their dispersion across geographic areas. No single customer accounts for 10% or more of the Company's net sales. The Company performs ongoing credit evaluations of its customers' financial conditions, obtains credit insurance in certain locations and requires collateral in certain circumstances. The Company maintains an allowance for estimated credit losses.

Derivative Financial Instruments

The Company operates in various locations around the world. The Company reduces its exposure to fluctuations in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items being hedged. The Company currently does not use derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

Foreign exchange risk is managed primarily by using forward contracts to hedge foreign currency denominated receivables and payables. Currency interest rate swaps are used to hedge foreign currency denominated principal and interest payments related to intercompany loans.

All derivatives are recorded in the Company's consolidated balance sheet at fair value. The estimated fair value of derivative financial instruments represents the amount required to enter into similar offsetting contracts with similar remaining maturities based on quoted market prices. As disclosed in Note 7, in 2004, the Company had an interest rate swap that was designated as a fair value hedge. Changes in the fair value of this derivative were recorded in current earnings and were offset by the like change in the fair value of the hedged debt instrument. Changes in the fair value of derivatives not designated as hedges are recorded in current earnings.

The notional amount of forward exchange contracts is the amount of foreign currency bought or sold at maturity. The notional amount of interest rate swaps is the underlying principal amount used in determining the interest payments exchanged over the life of the swap. Notional amounts are indicative of the extent of the Company's involvement in the various types and uses of derivative financial instruments and are not a measure of the Company's exposure to credit or market risks through its use of derivatives.

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Credit exposure for derivative financial instruments is limited to the amounts, if any, by which the counterparties obligations under the contracts exceed the obligations of the Company to the counterparties. Potential credit losses are minimized through careful evaluation of counterparty credit standing, selection of counterparties from a limited group of high-quality institutions and other contract provisions.

Derivative financial instruments comprise the following:

	Fiscal Year End			
	2005		2004	
	Notional Amounts	Estimated Fair Value	Notional Amounts	Estimated Fair Value
Foreign exchange forward contracts	\$ 1,486,538	\$ 43,556	\$ 1,401,648	\$ (110,615)
Interest rate swaps			739,741	(4,131)

Comprehensive Income

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (FAS 130) establishes standards for reporting and displaying comprehensive income and its components in the Company's consolidated financial statements. Comprehensive income is defined in FAS 130 as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from nonowner sources and is comprised of net income and other comprehensive income (loss).

The components of comprehensive income are as follows:

	Fiscal Year		
	2005	2004	2003
Net income	\$ 216,906	\$ 219,901	\$ 149,201
Changes in foreign currency translation adjustments	(76,666)	51,178	74,360
Comprehensive income	\$ 140,240	\$ 271,079	\$ 223,561

Accumulated other comprehensive income included in stockholders' equity totaled \$23,324, \$99,990 and \$48,812 at December 31, 2005, January 1, 2005 and January 3, 2004, respectively, and consisted solely of foreign currency translation adjustments.

Earnings Per Share

The Company reports a dual presentation of Basic Earnings Per Share (Basic EPS) and Diluted Earnings Per Share (Diluted EPS). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS reflects the potential dilution that could occur if stock options and warrants, and other commitments to issue common stock were exercised using the treasury stock method or the if-converted method, where applicable.

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

	Fiscal Year		
	2005	2004	2003
Net income	\$ 216,906	\$ 219,901	\$ 149,201
Weighted average shares	160,262,465	155,451,251	151,220,639
Basic earnings per share	\$ 1.35	\$ 1.41	\$ 0.99
Weighted average shares including the dilutive effect of stock options and warrants (4,068,701; 4,228,789; and 1,087,755 for 2005, 2004, and 2003, respectively)	164,331,166	159,680,040	152,308,394
Diluted earnings per share	\$ 1.32	\$ 1.38	\$ 0.98

There were approximately 6,983,000, 12,813,000, and 23,756,000 options and warrants in 2005, 2004, and 2003, respectively, that were not included in the computation of Diluted EPS because the exercise price was greater than the average market price of the Class A Common Stock, thereby resulting in an antidilutive effect.

Accounting for Stock-Based Compensation

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

	Fiscal Year		
	2005	2004	2003
Net income, as reported	\$ 216,906	\$ 219,901	\$ 149,201
Compensation expense as determined under FAS 123, net of related tax effects	17,068	26,479	28,363
Pro forma net income	\$ 199,838	\$ 193,422	\$ 120,838
Earnings per share:			
Basic as reported	\$ 1.35	\$ 1.41	\$ 0.99

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Basic	pro forma	\$	1.25	\$	1.24	\$	0.80
Diluted	as reported	\$	1.32	\$	1.38	\$	0.98
Diluted	pro forma	\$	1.21	\$	1.21	\$	0.79

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The weighted average fair value per option granted in 2005, 2004, and 2003 was \$6.04, \$4.80, and \$3.93, respectively. The fair value of options was estimated using the Black-Scholes option-pricing model assuming no dividends and using the following weighted average assumptions:

	Fiscal Year		
	2005	2004	2003
Risk-free interest rate	3.71%	2.72%	1.90%
Expected years until exercise	3.5 years	3.0 years	3.0 years
Expected stock volatility	41.8%	41.8%	49.3%

New Accounting Standards

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (FAS 123R). In March 2005, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin No. 107, Share-Based Payment, which further explains FAS 123R. FAS 123R revises Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (FAS 123), and supersedes Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees and related interpretations and Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. FAS 123R as amended requires compensation cost relating to all share-based payments to employees to be recognized in the financial statements based on their fair values and is effective for the Company's fiscal year beginning January 1, 2006. The pro forma disclosures previously permitted under FAS 123 will no longer be an alternative to financial statement recognition. Based on the Company's evaluation of the requirements of FAS 123R, as well as its existing long-term incentive compensation strategies, the Company currently expects that it will incur approximately \$30,000 in an additional operating expenses throughout 2006 resulting from the adoption of FAS 123R.

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

In June 2005, the Financial Accounting Standards Board issued FASB Staff Position 143-1, Accounting for Electronic Equipment Waste Obligations, (FSP 143-1). FSP 143-1 provides guidance on the accounting for certain obligations associated with the Waste Electrical and Electronic Equipment Directive (the Directive), adopted by the EU. Under the Directive, the waste management obligation for historical equipment (products put on the market on or prior to August 13, 2005) remains with the commercial user until the customer replaces the equipment. The Company will apply the provisions of FSP 143-1, which require the measurement in recognition of the liability and obligation associated with the historical waste, upon the Directive's adoption into law by the applicable EU member countries in which it operates. The Company is in the process of assessing what impact, if any, the Directive and FSP 143-1 may have on its consolidated financial position or results of operations.

Note 3 Reorganization Costs and Profit Enhancement Program

In April 2005, the Company announced an outsourcing and optimization plan that is expected to improve operating efficiencies within its North American region. The plan, which is now substantially completed, included an outsourcing arrangement that moved transaction-oriented service and support functions including certain North America positions in finance and shared services, customer service, vendor manage-

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ment and certain U.S. positions in technical support and inside sales (excluding field sales and management positions) to a leading global business process outsource provider. As part of the plan, the Company also restructured and consolidated other job functions within the North American region. Total costs of the actions, or major-program costs, incurred in 2005 were \$26,582 (\$9,649 of reorganization costs primarily for workforce reductions and facility exit costs, as well as \$16,933 of other major-program costs charged to selling, general and administrative expenses (SG&A) primarily for consulting, incremental depreciation of fixed assets resulting from the reduction in useful lives to coincide with the facility closure, retention and other expenses).

In November 2004, the Company acquired all of the outstanding shares of Tech Pacific. The Company substantially completed the integration of the operations of its pre-existing Asia-Pacific business with Tech Pacific in the third quarter of 2005. During 2005, integration expenses incurred totaled \$12,711, comprised of \$6,709 of reorganization costs primarily for employee termination benefits, facility exit costs and other contract termination costs for associates and facilities of the Company made redundant by this acquisition as well as \$6,002 of other costs charged to SG&A expenses primarily for consulting, incremental depreciation of fixed assets resulting from the reduction in useful lives to coincide with the facility closures, and other expenses related to the integration of this acquisition.

In September 2002, the Company announced a comprehensive profit enhancement program, which was designed to improve operating income through enhancements in gross margins and reduction of SG&A expenses. The Company implemented detailed initiatives under the comprehensive profit enhancement program in 2002 and 2003. Key components of these initiatives included enhancement and/or rationalization of vendor and customer programs, optimization of facilities and systems, outsourcing of certain IT infrastructure functions, geographic consolidations and administrative restructuring. For 2003, the Company incurred \$31,008 of costs related to this profit enhancement program. These costs consisted primarily of reorganization costs of \$13,609 in 2003 and other program implementation costs charged to cost of sales and SG&A expenses, or other major-program costs, of \$17,399 in 2003. Reorganization costs included severance expenses, lease termination costs and other costs associated with the exit of facilities or other contracts. The other major-program costs consisted of program management and consulting expenses, accelerated depreciation, losses on disposals of certain assets, costs associated with geographic relocation, costs related to the outsourcing of certain IT infrastructure functions, and inventory and vendor-program losses primarily associated with the exit of certain businesses.

During 2003, the Company incurred incremental reorganization costs of \$7,961 and incremental other major-program costs of \$6,407, which were not part of the original scope of the profit enhancement program announced in September 2002. These costs primarily related to the further consolidation of operations in the Nordic areas of Europe and a loss on the sale of a non-core German semiconductor equipment distribution business.

In addition, prior to September 2002, the Company had implemented other actions outside the scope of the comprehensive profit enhancement program, which were designed to further improve operating results. Those initiatives included enhancement and/or rationalization of vendor and customer programs, optimization of facilities and systems and geographic consolidations and administrative restructuring.

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INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reorganization Costs

The following table summarizes the components of the Company's reorganization costs by region for each of the fiscal years ended 2005, 2004 and 2003 resulting from the detailed actions discussed above.

Year Ended	Headcount Reduction	Employee Termination Benefits	Facility Costs	Other Costs	Total Cost
2005					
North America	580	\$ 7,219	\$ 2,430	\$	\$ 9,649
Europe		(75)	(7)		(82)
Asia-Pacific	320	4,082	2,127	500	6,709
Latin America					
Total	900	\$ 11,226	\$ 4,550	\$ 500	\$ 16,276
2004					
North America		\$ (125)	\$ (2,109)	\$	\$ (2,234)
Europe		(59)	(919)		(978)
Asia-Pacific	30	316			316
Latin America					
Total	30	\$ 132	\$ (3,028)	\$	\$ (2,896)
2003					
North America	680	\$ 6,417	\$ 3,298	\$ 1,519	\$ 11,234
Europe	165	2,658	6,780	(236)	9,202
Asia-Pacific	25	74			74
Latin America	170	922	125	13	1,060
Total	1,040	\$ 10,071	\$ 10,203	\$ 1,296	\$ 21,570

The following are descriptions of the detailed actions under the broad-based reorganization plan, the comprehensive profit enhancement program and additional profit enhancement opportunities as well as adjustments recorded during 2005.

Year ended December 31, 2005

The reorganization costs of \$16,276 for fiscal year 2005 consists of \$9,847 relating to the outsourcing and optimization plan in North America, \$6,709 relating to the integration of Tech Pacific in Asia-Pacific; partially offset by net adjustments of \$280 for detailed actions taken in previous periods discussed below.

The reorganization costs of \$9,847 in North America include employee termination benefits of \$7,219 for approximately 580 employees and \$2,628 for estimated lease exit costs in connection with closing and consolidating facilities. The reorganization costs of \$6,709 in Asia-Pacific include employee termination benefits of \$4,082 for approximately 320 employees, \$2,127 for estimated lease exit costs in connection with closing and consolidating redundant facilities and \$500 of other costs primarily due to contract terminations.

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The payment activities and adjustments in 2005 and the remaining liability at December 31, 2005 related to these detailed actions are summarized as follows:

	Reorganization Costs	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at December 31, 2005
Employee termination benefits	\$ 11,301	\$ 8,541	\$	\$ 2,760
Facility costs	4,755	2,089		2,666
Other costs	500	500		
Total	\$ 16,556	\$ 11,130	\$	\$ 5,426

Year ended January 1, 2005

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

Year ended January 3, 2004

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

The payment activities and adjustments in 2005 and the remaining liability at December 31, 2005 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 1, 2005	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at December 31, 2005
Employee termination benefits	\$ 164	\$ 164	\$	\$
Facility costs	2,198	1,972	1,435	1,661
Total	\$ 2,362	\$ 2,136	\$ 1,435	\$ 1,661

The net adjustments of \$1,435 reflect higher than expected costs to settle a lease obligation of \$1,442 in North America offset by a credit of \$7 in Europe for lower than expected lease obligation costs.

Actions prior to December 28, 2002

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

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are completed; however, future cash outlays will be required primarily for future lease payments related to exited facilities.

The payment activities and adjustments in 2005 and the remaining liability at December 31, 2005 related to these detailed actions are summarized as follows:

	Outstanding Liability at January 1, 2005	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at December 31, 2005
Employee termination benefits	\$ 160	\$ 25	\$ (75)	\$ 60
Facility costs	9,508	4,020	(1,640)	3,848
Total	\$ 9,668	\$ 4,045	\$ (1,715)	\$ 3,908

The net adjustments reflect lower than expected costs to settle a lease obligation totaling \$1,640 in North America and \$75 for lower than expected employee termination benefits in Europe.

Other Profit Enhancement Program Implementation Costs

Other costs recorded in SG&A expenses in 2005 totaled \$22,935, of which \$16,933 includes costs associated with the Company's outsourcing and optimization plan in North America, primarily comprised of incremental depreciation of fixed assets resulting from the reduction in useful lives to coincide with the facility closures, consulting, retention, and other transition costs; and \$6,002 includes costs associated with the integration of Tech Pacific in Asia-Pacific, primarily comprised of consulting and incremental depreciation of fixed assets resulting from the reduction in useful lives to coincide with the facility closures.

Other costs recorded in SG&A expenses and cost of sales in 2003 related to the implementation of the Company's profit enhancement program totaled \$23,806. These other major-program costs included \$23,363 recorded in SG&A, comprised of \$11,741 of incremental accelerated depreciation (\$10,834 in North America and \$907 in Europe) of fixed assets associated with the planned exit of facilities, the outsourcing of certain IT infrastructure functions in North America and software replaced by a more efficient solution; \$9,502 in recruiting, retention, training and other transition costs associated with the relocation of major functions and outsourcing of certain IT infrastructure functions in North America; and \$5,057 related to a loss on the sale of a non-core German semiconductor equipment distribution business; partially offset by a gain of \$2,937 on the sale of excess land near the Company's corporate headquarters in Southern California. In addition, other major-program costs of \$443 were recorded in cost of sales, primarily comprised of incremental inventory losses caused by the decision to further consolidate Nordic operations in Europe.

Note 4 Acquisitions

The Company accounts for all acquisitions after June 30, 2001 in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations. The results of operations of these businesses have been combined with the Company's results of operations beginning on their acquisition dates.

In July 2005, the Company acquired certain net assets of AVAD, the leading distributor for solution providers and custom installers serving the home automation and entertainment market in the U.S. This strategic acquisition accelerated the Company's entry into the adjacent consumer electronics market and improved the Company's operating margin in its North American operations. AVAD was acquired for an initial purchase price of \$136,438. The purchase

agreement also requires the Company to pay the sellers earn-out payments of up to \$80,000 over the next three years, if certain performance levels are achieved, and additional payments of up to \$100,000 are possible in 2010, if extraordinary performance levels are achieved over a five-year period. Such payment, if any, will be recorded as an adjustment to the initial purchase price.

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The purchase price was allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date, resulting in the recording of \$47,609 of goodwill, which is deductible for tax purposes, \$24,200 of trademarks with indefinite lives and \$28,700 of vendor relationships and other amortizable intangible assets with average estimated useful lives of approximately 10 years. In December 2005, the Company recorded a payable of \$30,000 to the sellers for the initial earn-out in accordance with the provisions of the purchase agreement, resulting in an increase of goodwill for the same amount.

In connection with the Company's acquisition of AVAD, the parties agreed that \$7,500 of the purchase price shall be held in an escrow account to cover claims from Ingram Micro for various indemnities by the sellers under the purchase agreement, which will be released in full to the sellers in January 2007 if no claims are made by the Company under the purchase agreement before such date.

During 2005, the Company also acquired the remaining shares of stock held by minority shareholders of its subsidiaries in New Zealand and India. The total purchase price for these acquisitions consisted of cash payments of \$596, resulting in the recording of approximately \$577 of goodwill in Asia-Pacific.

In November 2004, the Company acquired all of the outstanding shares of Tech Pacific, one of Asia-Pacific's largest technology distributors, for cash and the assumption of debt. This strategic acquisition significantly strengthens the Company's management team and ability to execute its operational objectives in the growing Asia-Pacific region. The total cost of the acquisition is as follows:

Purchase price:	
Cash paid to sellers	\$ 385,022
Debt assumed (net of cash acquired)	162,866
Acquisition costs	5,800
	\$ 553,688

The purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values on the transaction date. The identifiable intangible assets, including customer and vendor relationships, are amortized over the estimated useful life of approximately six years. The purchase price allocation, which includes costs of \$3,351 to integrate the operations of Tech Pacific, is summarized as follows:

Tangible assets, including accounts receivable, inventories, property and equipment and other assets	\$ 475,026
Goodwill	311,848
Identifiable intangible assets - customer and vendor relationships	36,000
Liabilities, including accounts payable and accrued expenses	(269,186)
Fair value of assets acquired and liabilities assumed	\$ 553,688

Less than one percent of the goodwill is expected to be deductible for tax purposes. A strong management and employee base with excellent execution capabilities, history of solid operating margins and profitability, and a strong presence in the growing Asia-Pacific region were among the factors that contributed to a purchase price resulting in the recognition of goodwill.

The following unaudited pro forma combined information assumes the acquisition of Tech Pacific occurred as of the beginning of each of the respective fiscal years presented below. These unaudited pro forma results have been prepared for informational purposes only and do not purport to represent what the results of operations would have

been had the acquisition occurred as of those dates, nor of future results of operations.

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The unaudited pro forma results for the fifty-two weeks ended January 1, 2005 and the fifty-three weeks January 3, 2004 are as follows:

	Fiscal Year	
	2004	2003
Net sales	\$ 27,651,703	\$ 24,842,426
Net earnings	\$ 232,081	\$ 160,450
Earnings per share		
Basic	\$ 1.49	\$ 1.06
Diluted	\$ 1.45	\$ 1.05

To protect the value of the Company's U.S. dollar investment in the acquisition of Tech Pacific, which was denominated in Australian dollars, the Company entered into a forward currency exchange contract for a notional amount equal to 537,000 Australian dollars. The forward exchange contract was entered at an agreed forward contract price of 0.71384 U.S. dollar to one Australian dollar. This forward exchange contract was settled concurrent with the Company's payment of the purchase price for Tech Pacific on November 10, 2004, the closing date of the acquisition at a gain of \$23,120.

In connection with the Company's acquisition of Tech Pacific, the parties agreed that 35,000 Australian dollars, or approximately \$27,000, of the purchase price shall be held in an escrow account of which 10,000 Australian dollars, or approximately \$8,000, was released on March 1, 2005. The balance of 25,000 Australian dollars or approximately \$19,000 remains in escrow pending resolution of claims from Ingram Micro for various indemnities by the sellers under the purchase agreement.

In July 2004, the Company acquired substantially all of the assets and assumed certain liabilities of Nimax, Inc., a privately held distributor of automatic identification and data capture and point-of-sale solutions. The purchase price, consisting of a cash payment of \$8,749 in 2004 and \$1,000 payable on or before October 31, 2006, was allocated to the assets acquired and liabilities assumed based on estimated fair values on the transaction date, resulting in the recording of \$918 of other amortizable intangible assets primarily related to customer and vendor relationships. No goodwill was recorded in this transaction. In addition to the cash payment, the purchase agreement requires the Company to pay the seller up to \$6,000 at the end of two years, based on a specified earn-out formula, which will be recorded as an adjustment to the purchase price, if paid.

The results of operations for the companies acquired other than Tech Pacific were not material to the Company's consolidated results of operations on an individual or aggregate basis, and accordingly, pro forma results of operations have not been presented for those acquisitions.

Note 5 Accounts Receivable

The Company has trade accounts receivable financing facilities in Europe, which provide up to approximately \$209,000 of additional financing capacity, depending upon the level of trade accounts receivable eligible to be transferred or sold. At December 31, 2005 and January 1, 2005, the Company had no trade accounts receivable sold to and held by third parties under the European program. At December 31, 2005, the Company's actual aggregate capacity under this program, based on eligible accounts receivable, was approximately \$207,343.

The Company is required to comply with certain financial covenants under some of its European financing facilities, including minimum tangible net worth, restrictions on funded debt, interest coverage and trade accounts receivable portfolio performance covenants. The Company is also restricted in the amount of

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dividends it can pay as well as the amount of common stock that it can repurchase annually. At December 31, 2005, the Company was in compliance with all covenants or other requirements set forth in its accounts receivable financing programs discussed above.

Losses in the amount of \$1,552, \$5,015 and \$10,206 for the fiscal years 2005, 2004 and 2003, respectively, related to the sale of trade accounts receivable under these facilities, or off-balance sheet debt, are included in Other expense (income) in the Company's consolidated statement of income.

Note 6 Property and Equipment

Property and equipment consist of the following:

	Fiscal Year End	
	2005	2004
Land	\$ 2,041	\$ 1,334
Buildings and leasehold improvements	138,071	136,328
Distribution equipment	204,679	206,615
Computer equipment and software	284,505	291,097
	629,296	635,374
Accumulated depreciation	(449,861)	(436,241)
	\$ 179,435	\$ 199,133

Note 7 Long-Term Debt

The Company's debt consists of the following:

	Fiscal Year End	
	2005	2004
Senior subordinated notes	\$	\$ 213,894
North American revolving trade accounts receivable-backed financing facilities	343,026	
Asia-Pacific revolving trade accounts receivable-backed financing facilities	112,624	132,289
Revolving unsecured credit facilities and other debt	149,217	168,649
	604,867	514,832
Current maturities of long-term debt	(149,217)	(168,649)
	\$ 455,650	\$ 346,183

On July 29, 2004, the Company entered into a revolving accounts receivable-based financing program in the U.S., which provides for up to \$500,000 in borrowing capacity secured by substantially all U.S.-based receivables. At the

option of the Company, the program may be increased to as much as \$600,000 at any time prior to July 29, 2006. The interest rate on this facility is dependent on the designated commercial paper rates plus a predetermined margin. This facility expires on March 31, 2008. At December 31, 2005 and January 1, 2005, the Company had borrowings of \$304,300 and \$0, respectively, under this revolving accounts receivable-based financing program.

At December 31, 2005, the Company has a trade accounts receivable-based financing program in Canada, which matures on August 31, 2008 and provides for borrowing capacity up to 150,000 Canadian dollars, or approximately \$129,000. The interest rate on this facility is dependent on the designated

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commercial paper rates plus a predetermined margin at the drawdown date. At December 31, 2005 and January 1, 2005, the Company had borrowings of \$38,726 and \$0, respectively, under this trade accounts receivable-based financing program.

In June 2002, the Company entered into a three-year European revolving trade accounts receivable-backed financing facility supported by the trade accounts receivable of a subsidiary in Europe for Euro 107,000, or approximately \$126,000 at December 31, 2005, with a financial institution that has an arrangement with a related issuer of third-party commercial paper. On July 1, 2005, the Company extended this facility under the same terms and conditions for another two years. In January 2004, the Company entered into another three-year European revolving trade accounts receivable-backed financing facility supported by the trade accounts receivable of two other subsidiaries in Europe for Euro 230,000, or approximately \$271,000 at December 31, 2005, with the same financial institution and related issuer of third-party commercial paper. On January 13, 2006, the Company extended this facility under the same terms and conditions for another three years. Both of these European facilities require certain commitment fees and borrowings under both facilities incur financing costs at rates indexed to EURIBOR. At December 31, 2005 and January 1, 2005, the Company had no borrowings under these European revolving trade accounts receivable-backed financing facilities.

In November 2004, the Company assumed from Tech Pacific a multi-currency revolving trade accounts receivable-backed financing facility in Asia-Pacific supported by the trade accounts receivable of two subsidiaries in the region for 200,000 Australian dollars (increased to 250,000 Australian dollars in April 2005, or \$183,000 at December 31, 2005), with a financial institution that has an arrangement with a related issuer of third-party commercial paper that expires in June 2008. The interest rate is dependent upon the currency in which the drawing is made and is related to the local short-term bank indicator rate for such currency. This facility has no fixed repayment terms prior to maturity. At December 31, 2005 and January 1, 2005, the Company had borrowings of \$112,624 and \$132,289, respectively, under this facility.

The Company's ability to access financing under its North American, European and Asia-Pacific facilities is dependent upon the level of eligible trade accounts receivable and the level of market demand for commercial paper. At December 31, 2005, the Company's actual aggregate available capacity under these programs was approximately \$962,000 based on eligible accounts receivable, of which approximately \$455,650 of such capacity was outstanding. The Company could, however, lose access to all or part of its financing under these facilities under certain circumstances, including: (a) a reduction in credit ratings of the third-party issuer of commercial paper or the back-up liquidity providers, if not replaced or (b) failure to meet certain defined eligibility criteria for the trade accounts receivable, such as receivables must be assignable and free of liens and dispute or set-off rights. In addition, in certain situations, the Company could lose access to all or part of its financing with respect to the January 2004 European facility as a result of the rescission of its authorization to collect the receivables by the relevant supplier under applicable local law. Based on the Company's assessment of the duration of these programs, the history and strength of the financial partners involved, other historical data, various remedies available to the Company under these programs, and the remoteness of such contingencies, the Company believes that it is unlikely that any of these risks will materialize in the near term.

In July 2005, the Company terminated its \$150,000 revolving senior unsecured credit facility with a bank syndicate that was scheduled to expire in December 2005. On the same day, the Company entered into a new three-year \$175,000 revolving senior unsecured credit facility with a new bank syndicate. The interest rate on the new revolving senior unsecured credit facility is based on LIBOR, plus a predetermined margin that is based on its debt ratings and its leverage ratio. At December 31, 2005 and January 1, 2005, the Company had no borrowings under the current and the former credit facility, respectively. The current and the former credit facility can also be used to support letters of credit. At December 31, 2005 and January 1, 2005, letters of credit totaling \$21,235 and \$24,255, respectively, were issued to certain vendors and financial institutions to

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support purchases by its subsidiaries, payment of insurance premiums and flooring arrangements. The Company's available capacity under the current agreement is reduced by the amount of any issued and outstanding letters of credit.

In December 2005, the Company's 80,000 Australian dollars multi-currency secured revolving loan facility matured. On the same day, the Company entered into a new three-year 100,000 Australian dollars, or approximately \$73,000 at December 31, 2005, senior unsecured credit facility with a bank syndicate. The interest rate on the new revolving senior unsecured credit facility is based on Australian or New Zealand LIBOR, depending on funding currency, plus a predetermined margin that is based on the Company's debt ratings and its leverage ratio. At December 31, 2005 and January 1, 2005, the Company had borrowings of \$14,357 under the current facility and \$0 borrowings under the former credit facility, respectively. The current and the former credit facility can also be used to support letters of credit. At December 31, 2005 and January 1, 2005, letters of credit totaling \$0 and \$24,129, respectively, were issued to certain financial institutions to support purchases by the Company's subsidiaries or local borrowings made available to certain of its subsidiaries in Asia-Pacific region. The Company's available capacity under the current agreement is reduced by the amount of any issued and outstanding letters of credit.

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

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

The Company also has additional lines of credit, short-term overdraft facilities and other credit facilities with various financial institutions worldwide, which provide for borrowing capacity aggregating approximately \$593,000 at December 31, 2005. Most of these arrangements are on an uncommitted basis and are reviewed periodically for renewal. At December 31, 2005 and January 1, 2005, the Company had \$134,860 and \$168,649, respectively, outstanding under these facilities. At December 31, 2005 and January 1, 2005, letters of credit totaling approximately \$53,367 and \$30,525, respectively, were issued principally to certain vendors to support purchases by the Company's subsidiaries. The issuance of these letters of credit reduces its available capacity under these agreements by the same amount. The weighted average interest rate on the outstanding borrowings under these facilities was 6.1% and 5.0% per annum at December 31, 2005 and January 1, 2005, respectively.

The Company is required to comply with certain financial covenants under some of its financing facilities, including minimum tangible net worth, restrictions on funded debt and interest coverage and trade accounts receivable portfolio performance covenants, including metrics related to receivables and payables. The Company is also restricted in the amount of additional indebtedness it can incur, dividends it can pay, as well

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as the amount of common stock that it can repurchase annually. At December 31, 2005, the Company was in compliance with all covenants or other requirements set forth in the credit agreements or other agreements with the Company's creditors discussed above.

Note 8 Income Taxes

The components of income before income taxes consist of the following:

	Fiscal Year		
	2005	2004	2003
United States	\$ 80,263	\$ 85,757	\$ 36,477
Foreign	221,674	177,519	79,317
Total	\$ 301,937	\$ 263,276	\$ 115,794

The provision for (benefit from) income taxes consist of the following:

	Fiscal Year		
	2005	2004	2003
Current:			
Federal	\$ 19,933	\$ 23,173	\$ 414
State	260	1,369	
Foreign	48,014	44,686	20,082
	68,207	69,228	20,496
Deferred:			
Federal	(7,044)	(31,729)	(55,630)
State	2,381	2,118	2,069
Foreign	21,487	3,758	(342)
	16,824	(25,853)	(53,903)
Provision for (benefit from) income taxes	\$ 85,031	\$ 43,375	\$ (33,407)

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Deferred income taxes reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax assets and liabilities are as follows:

	Fiscal Year End	
	2005	2004
Net deferred tax assets and (liabilities):		
Net operating loss carryforwards	\$ 50,990	\$ 62,878
Allowance on accounts receivable	14,623	22,660
Available tax credits	24,587	23,299
Inventories	(2,003)	(6,838)
Realized gains on available-for-sale securities not currently taxable	(2,711)	(9,108)
Depreciation and amortization	(40,318)	(38,189)
Employee benefits and compensation	32,307	29,025
Restructuring charges	2,469	3,393
Reserves and accruals	57,285	22,767
Other	4,266	5,133
	141,495	115,020
Valuation allowance	(27,417)	(16,477)
Total	\$ 114,078	\$ 98,543

Net current deferred tax assets of \$73,948 and \$92,553 were included in other current assets at December 31, 2005 and January 1, 2005, respectively. Net non-current deferred tax assets of \$40,130 and \$5,990 were included in other assets of December 31, 2005 and January 1, 2005, respectively. The net increase in valuation allowance of \$10,940 at December 31, 2005 primarily represents additional allowance for net operating losses and other temporary items in certain jurisdictions, as recovery of these assets are not considered likely.

At December 28, 2002, the Company had deferred tax liabilities of \$2,418, \$42,131 and \$76,098 related to the gains of \$6,535, \$111,458, and \$201,318, respectively, realized on the sales of Softbank common stock in 2002, 2000, and 1999, respectively. The Softbank common stock was sold in the public market by certain of Ingram Micro's foreign subsidiaries, which are located in a low-tax jurisdiction. At the time of sale, the Company concluded that U.S. taxes were not currently payable on the gains based on its internal assessment and opinions received from its advisors. However, in situations involving uncertainties in the interpretation of complex tax regulations by various taxing authorities, the Company provides for tax liabilities unless it considers it probable that taxes will not be due. The level of opinions received from its advisors and the Company's internal assessment did not allow the Company to reach that conclusion on this matter. The Company's U.S. federal tax returns were closed in September 2004 and 2003 for the fiscal years 2000 and 1999, respectively, and certain state returns for fiscal years 2000 and 1999 were closed in the third and fourth quarters of 2004, which resolved these matters for tax purposes in those jurisdictions. Accordingly, the Company reversed the related federal and certain state deferred tax liabilities of \$39,978 and \$1,100 associated with the gains on the 2000 and 1999 sales in the third and fourth quarters of 2004, respectively, while it reversed the related federal deferred tax liability of \$70,461 associated with the gain on the 1999 sale in the third quarter of 2003, thereby reducing its income tax provisions for both years in the consolidated statement of income. In 2005, the Company had settled and paid the tax liabilities of \$1,441 and \$2,779 associated with the gains realized in

2000 and 1999, respectively, with certain state tax jurisdictions and favorably resolved and reversed tax liabilities of \$967 and \$1,418 related to tax years in 2000 and 1999, respectively, for such tax

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jurisdictions. Although the Company reviews its assessments of the remaining tax liability on a regular basis, at December 31, 2005, the Company cannot currently determine when the remaining tax liabilities of \$2,503 (\$2,711 including estimated interest) related to these gains will be finally resolved with the taxing authorities, or if the taxes will ultimately be paid. As a result, the Company continues to provide for these tax liabilities. The U.S. Internal Revenue Service is in the process of examining the Company's federal tax returns for fiscal years 2001 to 2003.

Reconciliation of statutory U.S. federal income tax rate to the Company's effective rate is as follows:

	Fiscal Year		
	2005	2004	2003
U.S. statutory rate	\$ 105,678	\$ 92,147	\$ 40,528
Reversal of Softbank federal deferred tax liability	(2,385)	(41,078)	(70,461)
State income taxes, net of federal income tax benefit	1,391	2,266	1,345
Effect of international operations	(21,965)	(10,210)	(4,021)
Other	2,312	250	(798)
 Total tax provision	 \$ 85,031	 \$ 43,375	 \$ (33,407)

The Company had net operating tax loss carryforwards of \$229,497 (a valuation allowance has been provided related to \$108,771 of this amount). Approximately 80% of the remaining net operating loss carryforwards of \$120,726 have no expiration date and the remainder expire through the year 2025.

The Company does not provide for income taxes on undistributed earnings of foreign subsidiaries as such earnings are intended to be permanently reinvested in those operations. The amount of the foreign undistributed earnings is not practicably determinable.

The AJCA was signed into law in October 2004, which allows the Company to repatriate up to \$500,000 of permanently reinvested foreign earnings in 2005 at an effective tax rate of 5.25%. The Company opted not to take advantage of this new provision of the AJCA.

Note 9 Transactions with Related Parties

In 2005, the Company has loans receivable from certain of its non-executive associates. These loans, individually ranging up to \$290, have interest rates ranging from 2.84% to 6.23% per annum and are payable up to six years. Loans to executive officers, unless granted prior to their election to such position, were granted and approved by the Human Resources Committee of the Company's Board of Directors prior to July 30, 2002, the effective date of the Sarbanes-Oxley Act of 2002. No material modification or renewals to these loans to executive officers have been made since that date or subsequent to the employee's election as an executive officer of the Company, if later. At December 31, 2005 and January 1, 2005, the Company's employee loans receivable balance was \$566 and \$548, respectively.

In July 2005, the Company assumed from AVAD agreements with certain representative companies owned by the former owners of AVAD, who are now employed with Ingram Micro. These include agreements with two of the representative companies to sell products on the Company's behalf for a commission. In fiscal 2005, total sales generated by these companies were approximately \$8,200, resulting in the Company's recording of a commission expense of approximately \$187. In addition, the Company also assumed the operating lease agreement for a facility in Taunton, Massachusetts owned by the former owners of AVAD with an annual rental expense of approximately \$200 up to January 2024. In fiscal 2005, rent expense under this lease was approximately \$100.

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INGRAM MICRO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Commitments and Contingencies

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

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

During 2002 and 2003, one of the Company's Latin American subsidiaries was audited by the Brazilian taxing authorities in relation to certain commercial taxes. As a result of this audit, the subsidiary received an assessment of 30.6 million Brazilian reais, including interest and penalties computed through December 31, 2005, or approximately \$13.1 million at December 31, 2005, alleging these commercial taxes were not properly remitted for the subsidiary's purchase of imported software during the period January through September 2002. The Brazilian taxing authorities may make similar claims for periods subsequent to September 2002. Additional assessments for periods subsequent to September 2002, if received, may be significant either individually or in the aggregate. It is management's opinion, based upon the opinions of outside legal counsel, that the Company has valid defenses to the assessment of these taxes on the purchase of imported software for the 2002 period at issue or any subsequent period. Although the Company is vigorously pursuing administrative and judicial action to challenge the assessment, no assurance can be given as to the ultimate outcome. An unfavorable resolution of this matter is not expected to have a material impact on the Company's financial condition, but depending upon the time period and amounts involved it may have a material negative effect on its consolidated results of operations or cash flows.

The Company received an informal inquiry from the SEC during the third quarter of 2004. The SEC's focus to date has been related to certain transactions with McAfee, Inc. (formerly Network Associates, Inc. or NAI) from 1998 through 2000. The Company also received subpoenas from the U.S. Attorney's office for the Northern District of California (Department of Justice) in connection with its grand jury investigation of NAI, which seek information concerning these transactions. On January 4, 2006, McAfee and the SEC made public the terms of a settlement they had reached with respect to McAfee. The Company continues to cooperate fully with the SEC and the Department of Justice in their inquiries. The Company is engaged in discussions with the SEC toward a possible resolution of matters concerning these NAI-related transactions. The Company cannot predict with certainty the outcome of these discussions, nor their timing, nor can it reasonably estimate the amount of any loss or range of loss that might be incurred as a result of the resolution of these matters with the SEC and the Department of Justice. Such amounts may be material to the Company's consolidated results of operations or cash flows.

In December 2002, the Company entered into an agreement with a third-party provider of IT outsourcing services. The services to be provided include mainframe, major server, desktop and enterprise storage operations, wide-area and local-area network support and engineering; systems management services; help desk services; and worldwide voice/PBX. This agreement expires in December 2009, but is cancelable at the option of the Company subject to payment of termination fees.

In September 2005, the Company entered into an agreement with a leading global business process outsource service provider. The services to be provided include selected North America positions in finance and shared services, customer service, vendor management and selected U.S. positions in technical support

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and inside sales (excluding field sales and management positions). This agreement expires in September 2010, but is cancelable at the option of the Company subject to payment of termination fees.

The Company also leases the majority of its facilities and certain equipment under noncancelable operating leases. Renewal and purchase options at fair values exist for a substantial portion of the leases. Rental expense, including obligations related to IT outsourcing services, for the years ended 2005, 2004 and 2003 was \$111,342, \$110,826 and \$89,809, respectively.

Future minimum rental commitments on operating leases that have remaining noncancelable lease terms in excess of one year as well as minimum contractual payments under the IT and business process outsourcing agreements as of December 31, 2005 were as follows:

2006	\$	87,230
2007		79,881
2008		71,087
2009		68,572
2010		45,376
Thereafter		81,588
	\$	433,734

The above minimum payments have not been reduced by minimum sublease rental income of \$43,778 due in the future under noncancelable sublease agreements as follows: \$3,647, \$4,330, \$4,473, \$4,848, \$4,743 and \$21,737 in 2006, 2007, 2008, 2009, 2010 and thereafter, respectively.

Note 11 Segment Information

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

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

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Financial information by geographic segments is as follows:

As of and for the Fiscal Year Ended

	2005	2004	2003
Net sales			
North America			
Sales to unaffiliated customers	\$ 12,216,790	\$ 11,776,679	\$ 10,964,761
Intergeographic sales	177,299	150,137	130,804
Europe	10,424,026	9,839,185	8,267,000
Asia-Pacific	4,843,135	2,741,608	2,319,982
Latin America	1,324,361	1,104,599	1,061,274
Eliminations of intergeographic sales	(177,299)	(150,137)	(130,804)
Total	\$ 28,808,312	\$ 25,462,071	\$ 22,613,017
Income (loss) from operations			
North America	\$ 157,624	\$ 130,321	\$ 94,501
Europe	143,377	129,754	73,248
Asia-Pacific	39,768	9,796	(10,335)
Latin America	21,417	13,496	(1,221)
Total	\$ 362,186	\$ 283,367	\$ 156,193
Identifiable assets			
North America	\$ 4,148,828	\$ 3,812,388	\$ 3,387,133
Europe	1,894,641	2,105,086	1,668,710
Asia-Pacific	639,574	690,047	173,573
Latin America	351,947	319,216	244,746
Total	\$ 7,034,990	\$ 6,926,737	\$ 5,474,162
Capital expenditures			
North America	\$ 14,634	\$ 19,767	\$ 23,128
Europe	14,073	13,880	7,317
Asia-Pacific	9,266	2,211	2,182
Latin America	869	1,127	2,376
Total	\$ 38,842	\$ 36,985	\$ 35,003
Depreciation and amortization			
North America	\$ 33,193	\$ 34,631	\$ 55,426
Europe	14,260	17,580	17,491
Asia-Pacific	14,228	3,426	3,194
Latin America	2,657	2,020	2,408

Total	\$	64,338	\$	57,657	\$	78,519
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Supplemental information relating to reorganization costs and other profit enhancement program costs by geographic segment is as follows:

	Fiscal Year		
	2005	2004	2003
Reorganization costs			
North America	\$ 9,649	\$ (2,234)	\$ 11,234
Europe	(82)	(978)	9,202
Asia-Pacific	6,709	316	74
Latin America			1,060
Total	\$ 16,276	\$ (2,896)	\$ 21,570
Other profit enhancement program costs:			
Charged to cost of sales			
Europe	\$	\$	\$ 443
Charged to operating expenses			
North America	\$ 16,933	\$	\$ 17,399
Europe			5,964
Asia-Pacific	6,002		
Total	\$ 22,935	\$	\$ 23,363

Note 12 Stock Options and Equity Incentive Plans

The following summarizes the Company's existing stock option and equity incentive plans.

Equity Incentive Plans

In 2003, the Company's shareowners approved the Ingram Micro Inc. 2003 Equity Incentive Plan, which replaced the Company's three existing shareowner-approved equity incentive plans, the 1996, 1998 and 2000 Equity Incentive Plans (collectively called the Equity Incentive Plans), for the granting of stock-based incentive awards including incentive stock options, non-qualified stock options, restricted stock, and stock appreciation rights, among others, to key employees and members of the Company's Board of Directors. As of December 31, 2005, approximately 18,100,000 shares were available for grant. Options granted under the Equity Incentive Plans were issued at exercise prices ranging from \$9.75 to \$53.56 per share and have expiration dates not longer than 10 years from the date of grant. The options granted generally vest over a period of three years.

In 2005, 2004 and 2003, the Company granted a total of 52,129, 35,019 and 40,676 shares, respectively, of restricted Class A Common Stock to board members under the Equity Incentive Plans. These shares have no purchase price and vest over a one-year period. The Company recorded unearned compensation in 2005, 2004 and 2003 of \$925, \$589 and \$460 respectively, as a component of stockholders' equity upon issuance of these grants. In addition, in 2005, the Company granted to certain employees a total of 5,800 restricted stock units convertible upon vesting to the same number of Class A Common Stock under the Equity Incentive Plans. These units have no purchase price and vest over a period of one to three years. The Company recorded unearned compensation in 2005 of \$107 as a component of stockholders' equity upon issuance of these units.

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In August 2001, the Human Resources Committee of the Company's Board of Directors authorized a modification of the exercise schedule to retirees under the Equity Incentive Plans. The modification extended the exercise period upon retirement (as defined in the Equity Incentive Plans) from 12 months to 60 months for outstanding options as of August 1, 2001 and for all options granted thereafter, but not to exceed the contractual life of the option. Compensation expense will be recorded upon the retirement of eligible employees (associates 50 years of age and older who have five or more years of service) and is calculated based on the excess of the fair value of the Company's stock on the modification date (\$14.28 per share) over the exercise price of the modified option multiplied by the number of vested but unexercised options outstanding upon retirement. A noncash compensation charge of \$353, \$935 and \$785 was recorded in 2005, 2004 and 2003, respectively, relating to this modification. In addition, a noncash compensation charge of \$398 was recorded in 2005, relating to a stock modification for an extension of the exercise period for certain stock options of an executive who has retired from the Company.

A summary of activity under the Company's stock option plans is presented below:

	Shares (000s)	Weighted- Average Exercise Price
Outstanding at December 28, 2002	29,392	\$ 16.42
Stock options granted during the year	10,445	11.23
Stock options exercised	(1,106)	9.28
Forfeitures	(2,297)	15.71
Outstanding at January 3, 2004	36,434	15.19
Stock options granted during the year	6,750	15.47
Stock options exercised	(6,695)	12.62
Forfeitures	(3,830)	17.25
Outstanding at January 1, 2005	32,659	15.40
Stock options granted during the year	4,748	17.28
Stock options exercised	(3,576)	13.78
Forfeitures	(3,273)	17.86
Outstanding at December 31, 2005	30,558	15.61

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2005 (000s)	Weighted- Average Remaining Life	Weighted- Average Exercise Price	Number Exercisable at December 31, 2005 (000s)	Weighted- Average Exercise Price
Range of Exercise Prices					

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\$ 9.75	\$12.35	8,455	6.3	\$ 11.29	6,255	\$ 11.35
\$12.56	\$15.90	9,213	7.2	14.13	5,414	13.62
\$16.10	\$19.93	11,013	6.8	17.48	6,882	17.26
\$20.00	\$27.00	281	1.7	25.26	269	25.48
\$27.88	\$53.56	1,596	0.7	32.57	1,596	32.57
		30,558	6.4	15.61	20,416	15.79

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock options exercisable totaled approximately 20,416,000, 18,470,000 and 20,637,000 at December 31, 2005, January 1, 2005 and January 3, 2004, respectively, at weighted-average exercise prices of \$15.79, \$16.74 and \$16.92, respectively.

Employee Stock Purchase Plans

In 1998, the Board of Directors and the Company's shareowners approved the 1998 Employee Stock Purchase Plan (the Plan) under which 3,000,000 shares of the Company's Class A Common Stock could be sold to employees. Under the Plan, employees could elect to have between 1% and 6% of their earnings withheld to be applied to the purchase of these shares. The purchase price under the Plan was the lesser of the market price on the beginning or ending date of the offering periods. Under the 1998 Plan, offerings were made both in January and July of 2003 and 2002. The 2003 and 2002 offerings ended on December 31, 2003 and 2002, respectively. In January 2004 and 2003, the Company issued approximately 64,000 and 38,000 of the authorized shares and converted \$758 and \$475, respectively, in accrued employee contributions into stockholders' equity as a result. This Plan was discontinued by the Company effective fiscal year 2004.

Employee Benefit Plans

The Company's employee benefit plans permit eligible employees to make contributions up to certain limits, which are matched by the Company at stipulated percentages. The Company's contributions charged to expense were \$3,498 in 2005, \$4,476 in 2004, and \$4,133 in 2003.

Note 13 Common Stock

The Company has two classes of Common Stock, consisting of 500,000,000 authorized shares of \$0.01 par value Class A Common Stock and 135,000,000 authorized shares of \$0.01 par value Class B Common Stock, and 25,000,000 authorized shares of \$0.01 par value Preferred Stock. Class A stockholders are entitled to one vote on each matter to be voted on by the stockholders whereas Class B stockholders are entitled to ten votes on each matter voted on by the stockholders. The two classes of stock have the same rights in all other respects.

Table of Contents**INGRAM MICRO INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

There were no issued and outstanding shares of Class B Common Stock during the three-year period ended December 31, 2005. The detail of changes in the number of issued and outstanding shares of Class A Common Stock for the three-year period ended December 31, 2005, is as follows:

	Class A
December 28, 2002	150,778,355
Stock options exercised	1,106,229
Grant of restricted Class A Common Stock	40,676
Issuance of Class A Common Stock related to Employee Stock Purchase Plan	38,407
January 3, 2004	151,963,667
Stock options exercised	6,695,330
Grant of restricted Class A Common Stock	35,019
Issuance of Class A Common Stock related to Employee Stock Purchase Plan	63,545
Surrender of restricted Class A Common Stock associated with payment of withholding tax	(19,663)
January 1, 2005	158,737,898
Stock options exercised	3,576,256
Grant of restricted Class A Common Stock	52,129
December 31, 2005	162,366,283

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INGRAM MICRO INC.
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions	Other(*)	Balance at End of Year
(Dollars in 000s)					
Allowance for doubtful accounts receivable and sales returns:					
2005	\$ 93,465	\$ 22,060	\$ (32,744)	\$ (950)	\$ 81,831
2004	91,613	28,325	(38,017)	11,544	93,465
2003	89,889	54,096	(56,046)	3,674	91,613

* Other includes recoveries, acquisitions, and the effect of fluctuation in foreign currency.

Table of Contents**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Ingram Micro Inc.:

We have completed integrated audits of Ingram Micro Inc.'s December 31, 2005 and January 1, 2005 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its January 3, 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Ingram Micro Inc. and its subsidiaries at December 31, 2005 and January 1, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation

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of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded AVAD from its assessment of internal control over financial reporting as of December 31, 2005 because the Company acquired certain assets of AVAD in July 2005. We have also excluded AVAD from our audit of internal control over financial reporting. AVAD is a wholly owned subsidiary of the Company whose total assets and total revenues are less than 3% and 1% of the Company's consolidated total assets and revenues, respectively, as of and for the year ended December 31, 2005.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Los Angeles, California

March 13, 2006

Table of Contents**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no changes in our independent accountants or disagreements with such accountants on accounting principles or practices or financial statement disclosures.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply judgment in evaluating the cost-benefit relationship of those disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective in providing reasonable assurance that the objectives of the disclosure controls and procedures are met.

Management's Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on our assessment using those criteria, we concluded that our internal control over financial reporting was effective as of December 31, 2005.

We have excluded AVAD from our assessment of internal control over financial reporting as of December 31, 2005 because the Company acquired certain assets of AVAD in July 2005. AVAD is a wholly owned subsidiary of the Company whose total assets and total revenues are less than 3% and 1% of the Company's consolidated total assets and revenues, respectively, as of and for the year ended December 31, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in this Form 10-K.

Changes in Internal Control over Financial Reporting. There was no change in our internal control over financial reporting that occurred during the quarterly period ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**ITEM 9B. OTHER INFORMATION**

None.

PART III

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure in Part I of this report, under the caption Executive Officers of the Company, because we will not furnish such information in our definitive Proxy Statement prepared in accordance with Schedule 14A.

The Notice and Proxy Statement for the 2006 Annual Meeting of Shareowners, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, which is incorporated by reference in this Annual Report on Form 10-K pursuant to General Instruction G (3) of Form 10-K, will provide the remaining information required under Part III (Items 10, 11, 12, 13 and 14).

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES****(a) 1. Financial Statements**

See Index to Consolidated Financial Statements under Item 8. Financial Statements and Supplemental Data of this Annual Report.

(a) 2. Financial Statement Schedules

See Financial Statement Schedule II Valuation and Qualifying Accounts of this Annual Report under Item 8. Financial Statements and Supplemental Data.

(a) 3. List of Exhibits**Exhibit
No.****Exhibit**

- | | |
|------|---|
| 3.1 | Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.01 to the Company's Registration Statement on Form S-1 (File No. 333-08453) (the IPO S-1)) |
| 3.2 | Certificate of Amendment of the Certificate of Incorporation of the Company dated as of June 5, 2001 (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-4 (File No. 333-69816) (the 2001 S-4)) |
| 3.3 | Amended and Restated Bylaws of the Company dated April 6, 2005 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed April 7, 2005 (the 4/7/05 8-K)) |
| 4.1 | Indenture between the Company as Issuer and Bank One Trust Corp., N.A. as Trustee, dated as of August 16, 2001, relating to 9 ⁷ / ₈ % Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.1 to the 2001 S-4) |
| 10.1 | Amended and Restated Reorganization Agreement dated as of October 17, 1996 among the Company, Ingram Industries Inc., and Ingram Entertainment Inc. (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-16667) (the Thrift Plan S-1)) |
| 10.2 | Thrift Plan Liquidity Agreement dated as of November 6, 1996 among the Company and the Ingram Thrift Plan (incorporated by reference to Exhibit 10.16 to the Thrift Plan S-1) |
| 10.3 | Tax Sharing and Tax Services Agreement dated as of November 6, 1996 among the Company, Ingram Industries, and Ingram Entertainment (incorporated by reference to Exhibit 10.17 to the Thrift Plan S-1) |
| 10.4 | Employee Benefits Transfer and Assumption Agreement dated as of November 6, 1996 among the Company, Ingram Industries, and Ingram Entertainment (incorporated by reference to Exhibit 10.19 to the Thrift Plan S-1) |

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Exhibit No.	Exhibit
10.5	Amended and Restated Exchange Agreement dated as of November 6, 1996 among the Company, Ingram Industries, Ingram Entertainment and the other parties thereto (incorporated by reference to Exhibit 10.21 to the Thrift Plan S-1)
10.6	Retirement Programs Ingram Micro Amended and Restated 401(k) Investment Plan
10.7	Retirement Programs Ingram Micro Supplemental Investment Savings Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the 2004 fiscal year (the 2004 10-K))
10.8	Retirement Programs First Amendment to Supplemental Investment Savings Plan (incorporated by reference to Exhibit 10.7 to the 2004 10-K)
10.9	Retirement Programs 2005 Compensation Deferral Agreement for Kevin M. Murai
10.10	Retirement Programs 2006 Compensation Deferral Agreement for Kevin M. Murai
10.11	Equity-Based Compensation Programs Ingram Micro Inc. 1996 Equity Incentive Plan (incorporated by reference to Exhibit 10.09 to the IPO S-1)
10.12	Equity-Based Compensation Programs Ingram Micro Inc. Amended and Restated 1996 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to the IPO S-1)
10.13	Equity-Based Compensation Programs Amendment No. 1 to the Ingram Micro Inc. Amended and Restated 1996 Equity Incentive Plan (incorporated by reference to Exhibit 10.06 to the Company's Annual Report on Form 10-K for the 1998 fiscal year (the 1998 10-K))
10.14	Equity-Based Compensation Programs Ingram Micro Inc. 1998 Equity Incentive Plan (incorporated by reference to Exhibit 10.43 to the 1998 10-K)
10.15	Equity-Based Compensation Programs Ingram Micro Inc. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 99.01 to the Company's Registration Statement on Form S-8 (File No. 333-39780))
10.16	Equity-Based Compensation Programs Ingram Micro Inc. 2003 Equity Incentive Plan ((the 2003 Plan)) incorporated by reference to Exhibit 10.06 to the Company's Annual Report on Form 10-K for the 2003 fiscal year (the 2003 10-K))
10.17	Employment Agreement with Kent B. Foster, dated March 6, 2000 (incorporated by reference to Exhibit 10.55 to the Company's Annual Report on Form 10-K for the 1999 fiscal year (the 1999 10-K))
10.18	Executive Retention Plan (incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (the Q2 2001 10-Q))
10.19	Executive Retention Plan Agreement with Kevin M. Murai (incorporated by reference to Exhibit 10.03 to the Q2 2001 10-Q)
10.20	Executive Retention Plan Agreement with Gregory M.E. Spierkel (incorporated by reference to Exhibit 10.04 to the Q2 2001 10-Q)
10.21	Executive Retention Plan Agreement with Henri T. Koppen (incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the 2002 fiscal year (the 2002 10-K))
10.22	Amendment to Executive Retention Plan Agreement with Henri T. Koppen (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the 2003 fiscal year (the 2003 10-K))
10.23	Ingram Micro Inc. Executive Incentive Plan (incorporated by reference to Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002)
10.24	

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- Executive Officer Severance Policy adopted October 2003 (incorporated by reference to Exhibit 10.52 to the 2003 10-K)
- 10.25 2003 Executive Retention Agreement with Michael J. Grainger dated December 19, 2003 (incorporated by reference to Exhibit 10.46 to the 2003 10-K)
- 10.26 Employment Agreement as of June 1, 2005 between Ingram Micro and Kent B. Foster (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on May 31, 2005)
- 10.27 2001 Executive Retention Plan Award Payment Deferral Confirmation to Henri T. Koppen (filed as Exhibit 99.01 to the Company's Current Report on Form 8-K filed on March 6, 2006)

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Exhibit No.	Exhibit
10.28	Compensation Agreement Form of Board of Directors Compensation Election Form (Committee Chairman) (incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K filed on December 23, 2004 (the 12/23/04 8-K))
10.29	Compensation Agreement Form of Board of Directors Compensation Election Form (Non-Committee Chairman) (incorporated by reference to Exhibit 99.5 to the 12/23/04 8-K)
10.30	Compensation Agreement Form of Board of Directors Distribution Election and Beneficial Designation Form (incorporated by reference to Exhibit 99.6 to the 12/23/04 8-K)
10.31	Compensation Agreement Form of Board of Directors Restricted Stock Units Deferral Election Agreement (incorporated by reference to Exhibit 99.7 to the 12/23/04 8-K)
10.32	Compensation Agreement Form of Board of Directors Compensation Deferral Election Form (incorporated by reference to Exhibit 99.8 to the 12/23/04 8-K)
10.33	Compensation Agreement Form of Non-Qualified Stock Option Award Agreement (U.S.) for awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on December 16, 2005 (the 12/16/05 8-K))
10.34	Compensation Agreement Form of Non-Qualified Stock Option Award Agreement (Non-U.S.) for awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.2 to the 12/16/05 8-K)
10.35	Compensation Agreement Form of Restricted Stock Award Agreement for time-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.3 to the 12/16/05 8-K)
10.36	Compensation Agreement Form of Restricted Stock Unit Award Agreement for time-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.4 to the 12/16/05 8-K)
10.37	Compensation Agreement Form of Restricted Stock Award Agreement for performance-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.5 to the 12/16/05 8-K)
10.38	Compensation Agreement Form of Restricted Stock Unit Award Agreement for performance-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.6 to the 12/16/05 8-K)
10.39	Summary of Annual Executive Incentive Award Program
10.40	US\$150,000,000 Credit Agreement dated as of December 13, 2002 among the Company, as Initial Borrower and Guarantor, Ingram European Coordination Center N.V., as Initial Borrower, certain financial institutions as the Lenders, ABN AMRO Bank N.V., as the Syndication Agent for the Lenders and The Bank of Nova Scotia, as the Administrative Agent for the Lenders (the 2002 Credit Agreement) (incorporated by reference to Exhibit 10.41 to the 2002 10-K)
10.41	Amendment No. 1 dated as of February 20, 2003 to the 2002 Credit Agreement (incorporated by reference to Exhibit 10.42 to the 2002 10-K)
10.42	Amended and Restated German Master Receivables Transfer and Servicing Agreement between BNP Paribas Bank N.V. as Transferee and Ingram Micro Distribution GMBH as Originator and Ingram Micro Holding GMBH as Depositor, dated August 14, 2003 and restated as of March 31, 2004 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2004)
10.43	Receivables Funding Agreement, dated July 29, 2004, among General Electric Capital Corporation, the Company, and Funding (incorporated by reference to Exhibit 10.54 to the

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Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004 (the 2004 Q2 10-Q)

- 10.44 Receivables Sale Agreement, dated July 29, 2004 between the Company and Ingram Funding Inc. (incorporated by reference to Exhibit 10.55 to the 2004 Q2 10-Q)
- 10.45 Share Sale Agreement with the stockholders of Techpac Holdings Limited, a company incorporated in Bermuda, dated September 26, 2004 (incorporated by reference to Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004)

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Exhibit No.	Exhibit
10.46	Credit Agreement dated effective as of July 29, 2005 among Ingram Micro Inc. and its subsidiaries Ingram Micro Coordination Center B.V.B.A. and Ingram Micro Europe Treasury LLC, Bank of Nova Scotia, as administrative agent, ABN AMRO Bank N.V., as syndication agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 2, 2005)
14.1	Ingram Micro Code of Conduct (incorporated by reference to Exhibit 14.1 to the Company's Current Report on Form 8-K filed on August 24, 2005)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
99.1	Amended and Restated Corporate Governance Guidelines of Ingram Micro Inc., dated April 6, 2005 (incorporated by reference to Exhibit 99.2 to the 4/7/05 8-K)

Table of Contents**SIGNATURES**

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

INGRAM MICRO INC.

By: /s/ *Larry C. Boyd*

Larry C. Boyd
Senior Vice President, Secretary
and General Counsel

March 14, 2006

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

Signature	Title	Date
<u>/s/ <i>Gregory M. E. Spierkel</i></u> Gregory M. E. Spierkel	Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2006
<u>/s/ <i>Kevin M. Murai</i></u> Kevin M. Murai	President and Chief Operating Officer and Director	March 14, 2006
<u>/s/ <i>William D. Humes</i></u> William D. Humes	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Accounting Officer)	March 14, 2006
<u>/s/ <i>Kent B. Foster</i></u> Kent B. Foster	Chairman of the Board	March 14, 2006
<u>/s/ <i>Howard I. Atkins</i></u> Howard I. Atkins	Director	March 14, 2006
<u>/s/ <i>John R. Ingram</i></u> John R. Ingram	Director	March 14, 2006
<u>/s/ <i>Martha R. Ingram</i></u> Martha R. Ingram	Director	March 14, 2006
<u>/s/ <i>Orrin H. Ingram</i></u>	Director	March 14,

Orrin H. Ingram II

2006

/s/ Dale R. Laurance

Director

March 14,
2006

Dale R. Laurance

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Signature	Title	Date
<i>/s/ Linda Fayne Levinson</i> <hr/> Linda Fayne Levinson	Director	March 14, 2006
<i>/s/ Gerhard Schulmeyer</i> <hr/> Gerhard Schulmeyer	Director	March 14, 2006
<i>/s/ Michael T. Smith</i> <hr/> Michael T. Smith	Director	March 14, 2006
<i>/s/ Joe B. Wyatt</i> <hr/> Joe B. Wyatt	Director	March 14, 2006

Table of Contents**EXHIBIT INDEX**

Exhibit No.	Exhibit
3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.01 to the Company's Registration Statement on Form S-1 (File No. 333-08453) (the "IPO S-1"))
3.2	Certificate of Amendment of the Certificate of Incorporation of the Company dated as of June 5, 2001 (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-4 (File No. 333-69816) (the "2001 S-4"))
3.3	Amended and Restated Bylaws of the Company dated April 6, 2005 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed April 7, 2005 (the "4/7/05 8-K"))
4.1	Indenture between the Company as Issuer and Bank One Trust Corp., N.A. as Trustee, dated as of August 16, 2001, relating to 97/8% Senior Subordinated Notes due 2008 (incorporated by reference to Exhibit 4.1 to the 2001 S-4)
10.1	Amended and Restated Reorganization Agreement dated as of October 17, 1996 among the Company, Ingram Industries Inc., and Ingram Entertainment Inc. (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-16667) (the "Thrift Plan S-1"))
10.2	Thrift Plan Liquidity Agreement dated as of November 6, 1996 among the Company and the Ingram Thrift Plan (incorporated by reference to Exhibit 10.16 to the Thrift Plan S-1)
10.3	Tax Sharing and Tax Services Agreement dated as of November 6, 1996 among the Company, Ingram Industries, and Ingram Entertainment (incorporated by reference to Exhibit 10.17 to the Thrift Plan S-1)
10.4	Employee Benefits Transfer and Assumption Agreement dated as of November 6, 1996 among the Company, Ingram Industries, and Ingram Entertainment (incorporated by reference to Exhibit 10.19 to the Thrift Plan S-1)
10.5	Amended and Restated Exchange Agreement dated as of November 6, 1996 among the Company, Ingram Industries, Ingram Entertainment and the other parties thereto (incorporated by reference to Exhibit 10.21 to the Thrift Plan S-1)
10.6	Retirement Programs - Ingram Micro Amended and Restated 401(k) Investment Plan
10.7	Retirement Programs - Ingram Micro Supplemental Investment Savings Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the 2004 fiscal year (the "2004 10-K"))
10.8	Retirement Programs - First Amendment to Supplemental Investment Savings Plan (incorporated by reference to Exhibit 10.7 to the 2004 10-K)
10.9	Retirement Programs - 2005 Compensation Deferral Agreement for Kevin M. Murai
10.10	Retirement Programs - 2006 Compensation Deferral Agreement for Kevin M. Murai
10.11	Equity-Based Compensation Programs - Ingram Micro Inc. 1996 Equity Incentive Plan (incorporated by reference to Exhibit 10.09 to the IPO S-1)
10.12	Equity-Based Compensation Programs - Ingram Micro Inc. Amended and Restated 1996 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to the IPO S-1)
10.13	Equity-Based Compensation Programs - Amendment No. 1 to the Ingram Micro Inc. Amended and Restated 1996 Equity Incentive Plan (incorporated by reference to Exhibit 10.06 to the Company's Annual Report on Form 10-K for the 1998 fiscal year (the "1998 10-K"))
10.14	Equity-Based Compensation Programs - Ingram Micro Inc. 1998 Equity Incentive Plan (incorporated by reference to Exhibit 10.43 to the 1998 10-K)

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- 10.15 Equity-Based Compensation Programs Ingram Micro Inc. 2000 Equity Incentive Plan (incorporated by reference to Exhibit 99.01 to the Company s Registration Statement on Form S-8 (File No. 333-39780))
 - 10.16 Equity-Based Compensation Programs Ingram Micro Inc. 2003 Equity Incentive Plan ((the 2003 Plan) incorporated by reference to Exhibit 10.06 to the Company s Annual Report on Form 10-K for the 2003 fiscal year (the 2003 10-K))
 - 10.17 Employment Agreement with Kent B. Foster, dated March 6, 2000 (incorporated by reference to Exhibit 10.55 to the Company s Annual Report on Form 10-K for the 1999 fiscal year (the 1999 10-K))
-

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Exhibit No.	Exhibit
10.18	Executive Retention Plan (incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (the "Q2 2001 10-Q"))
10.19	Executive Retention Plan Agreement with Kevin M. Murai (incorporated by reference to Exhibit 10.03 to the Q2 2001 10-Q)
10.20	Executive Retention Plan Agreement with Gregory M.E. Spierkel (incorporated by reference to Exhibit 10.04 to the Q2 2001 10-Q)
10.21	Executive Retention Plan Agreement with Henri T. Koppen (incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the 2002 fiscal year (the "2002 10-K"))
10.22	Amendment to Executive Retention Plan Agreement with Henri T. Koppen (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the 2003 fiscal year (the "2003 10-K"))
10.23	Ingram Micro Inc. Executive Incentive Plan (incorporated by reference to Exhibit 10.44 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 2002)
10.24	Executive Officer Severance Policy adopted October 2003 (incorporated by reference to Exhibit 10.52 to the 2003 10-K)
10.25	2003 Executive Retention Agreement with Michael J. Grainger dated December 19, 2003 (incorporated by reference to Exhibit 10.46 to the 2003 10-K)
10.26	Employment Agreement as of June 1, 2005 between Ingram Micro and Kent B. Foster (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on May 31, 2005)
10.27	2001 Executive Retention Plan Award Payment Deferral Confirmation to Henri T. Koppen (filed as Exhibit 99.01 to the Company's Current Report on Form 8-K filed on March 6, 2006)
10.28	Compensation Agreement Form of Board of Directors Compensation Election Form (Committee Chairman) (incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K filed on December 23, 2004 (the "12/23/04 8-K"))
10.29	Compensation Agreement Form of Board of Directors Compensation Election Form (Non-Committee Chairman) (incorporated by reference to Exhibit 99.5 to the 12/23/04 8-K)
10.30	Compensation Agreement Form of Board of Directors Distribution Election and Beneficial Designation Form (incorporated by reference to Exhibit 99.6 to the 12/23/04 8-K)
10.31	Compensation Agreement Form of Board of Directors Restricted Stock Units Deferral Election Agreement (incorporated by reference to Exhibit 99.7 to the 12/23/04 8-K)
10.32	Compensation Agreement Form of Board of Directors Compensation Deferral Election Form (incorporated by reference to Exhibit 99.8 to the 12/23/04 8-K)
10.33	Compensation Agreement Form of Non-Qualified Stock Option Award Agreement (U.S.) for awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on December 16, 2005 (the "12/16/05 8-K"))
10.34	Compensation Agreement Form of Non-Qualified Stock Option Award Agreement (Non-U.S.) for awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.2 to the 12/16/05 8-K)
10.35	Compensation Agreement Form of Restricted Stock Award Agreement for time-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.3 to the 12/16/05 8-K)
10.36	Compensation Agreement Form of Restricted Stock Unit Award Agreement for time-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.4 to the

- 12/16/05 8-K)
- 10.37 Compensation Agreement Form of Restricted Stock Award Agreement for performance-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.5 to the 12/16/05 8-K)
- 10.38 Compensation Agreement Form of Restricted Stock Unit Award Agreement for performance-vested awards granted under the 2003 Plan (incorporated by reference to Exhibit 99.6 to the 12/16/05 8-K)
- 10.39 Summary of Annual Executive Incentive Award Program
- 10.40 US\$150,000,000 Credit Agreement dated as of December 13, 2002 among the Company, as Initial Borrower and Guarantor, Ingram European Coordination Center N.V., as Initial Borrower, certain financial institutions as the Lenders, ABN AMRO Bank N.V., as the Syndication Agent for the Lenders and The Bank of Nova Scotia, as the Administrative Agent for the Lenders (the 2002 Credit Agreement) (incorporated by reference to Exhibit 10.41 to the 2002 10-K)
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Exhibit No.	Exhibit
10.41	Amendment No. 1 dated as of February 20, 2003 to the 2002 Credit Agreement (incorporated by reference to Exhibit 10.42 to the 2002 10-K)
10.42	Amended and Restated German Master Receivables Transfer and Servicing Agreement between BNP Paribas Bank N.V. as Transferee and Ingram Micro Distribution GMBH as Originator and Ingram Micro Holding GMBH as Depositor, dated August 14, 2003 and restated as of March 31, 2004 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2004)
10.43	Receivables Funding Agreement, dated July 29, 2004, among General Electric Capital Corporation, the Company, and Funding (incorporated by reference to Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004 (the 2004 Q2 10-Q))
10.44	Receivables Sale Agreement, dated July 29, 2004 between the Company and Ingram Funding Inc. (incorporated by reference to Exhibit 10.55 to the 2004 Q2 10-Q)
10.45	Share Sale Agreement with the stockholders of Techpac Holdings Limited, a company incorporated in Bermuda, dated September 26, 2004 (incorporated by reference to Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004)
10.46	Credit Agreement dated effective as of July 29, 2005 among Ingram Micro Inc. and its subsidiaries Ingram Micro Coordination Center B.V.B.A. and Ingram Micro Europe Treasury LLC, Bank of Nova Scotia, as administrative agent, ABN AMRO Bank N.V., as syndication agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 2, 2005)
14.1	Ingram Micro Code of Conduct (incorporated by reference to Exhibit 14.1 to the Company's Current Report on Form 8-K filed on August 24, 2005)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification by Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification by Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
99.1	Amended and Restated Corporate Governance Guidelines of Ingram Micro Inc., dated April 6, 2005 (incorporated by reference to Exhibit 99.2 to the 4/7/05 8-K)