ANIXTER INTERNATIONAL INC
Form 10-Q
May 07, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 28, 2008

OR

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

For the transition period from __________ to __________

Commission File Number: 1-5989

ANIXTER INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-1658138**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2301 Patriot Blvd.
Glenview, Illinois 60026
(224) 521-8000

(Address and telephone number of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

At May 1, 2008, 35,682,985 shares of the registrant s Common Stock, $1.00 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

* *No reportable information under this item.*

This report may contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The statements can be identified by the use of forward-looking terminology such as believe, expects, intends, anticipates, completes, estimates, plans, projects, should, may or the negative thereof or other variations thereon or comparable terminology indicating the Company s expectations or beliefs concerning future events. The Company cautions that such statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, a number of which are identified in this report. Other factors could also cause actual results to differ materially from expected results included in these statements. These factors include changes in supplier or customer relationships, technology changes, economic and currency risks, new or changed competitors, risks associated with inventory, commodity price fluctuations and risks associated with the integration of recently acquired companies.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ANIXTER INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	13 Weeks Ended	
(In millions, except per share amounts)	**March 28, 2008**	**March 30, 2007**
Net sales	$ 1,471.6	$ 1,328.7
Cost of operations:		
Cost of goods sold	1,123.1	1,010.3
Operating expenses	247.0	228.0
Total costs and expenses	1,370.1	1,238.3
Operating income	101.5	90.4
Other (expense) income:		
Interest expense	(11.5)	(10.9)
Other, net	(0.3)	0.7
Income before income taxes	89.7	80.2
Income tax expense	32.0	26.6
Net income	$ 57.7	$ 53.6
Net income per share:		
Basic	$ 1.61	$ 1.42
Diluted	$ 1.45	$ 1.27

See accompanying notes to the condensed consolidated financial statements.

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ANIXTER INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share amounts)	March 28, 2008 (Unaudited)	December 28, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59.3	$ 42.2
Accounts receivable (less allowances of $24.1 and $25.6 in 2008 and 2007, respectively)	1,208.3	1,215.9
Inventories	1,095.0	1,065.0
Deferred income taxes	38.1	37.6
Other current assets	21.1	18.2
Total current assets	2,421.8	2,378.9
Property and equipment, at cost	244.4	235.2
Accumulated depreciation	(163.1)	(157.1)
Net property and equipment	81.3	78.1
Goodwill	407.7	403.2
Other assets	155.0	156.0
	$ 3,065.8	$ 3,016.2
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 684.9	$ 654.8
Accrued expenses	168.9	201.0
Short-term debt	93.7	84.1
Total current liabilities	947.5	939.9
Long-term debt	949.3	937.2
Other liabilities	92.0	91.3
Total liabilities	1,988.8	1,968.4
Stockholders equity:		
Common stock $1.00 par value, 100,000,000 shares authorized, 35,865,873 and 36,335,448 shares issued and outstanding in 2008 and 2007, respectively	35.9	36.3
Capital surplus	153.3	145.2
Retained earnings	832.1	815.4
Accumulated other comprehensive income:		
Foreign currency translation	62.7	58.1
Unrecognized pension liability	(7.8)	(8.7)
Unrealized gain on derivatives	0.8	1.5
Total accumulated other comprehensive income	55.7	50.9

Total stockholders equity		1,077.0		1,047.8
	$	3,065.8	$	3,016.2

See accompanying notes to the condensed consolidated financial statements.

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ANIXTER INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	13 Weeks Ended	
	March 28, 2008	March 30, 2007
	(In millions)	
Operating activities:		
Net income	$ 57.7	$ 53.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6.3	5.1
Amortization of stock compensation	3.5	2.7
Amortization of intangible assets	2.1	1.9
Amortization of deferred financing costs	0.5	0.3
Accretion of zero coupon convertible notes	1.3	1.3
Deferred income taxes		(1.7)
Excess income tax benefit from employee stock plans	(3.6)	(4.6)
Changes in current assets and liabilities, net	(11.3)	7.5
Other, net	(1.1)	(0.3)
Net cash provided by operating activities	55.4	65.8
Investing activities:		
Capital expenditures	(8.8)	(7.8)
Acquisition of business, net of cash acquired		(2.0)
Other	0.1	
Net cash used in investing activities	(8.7)	(9.8)
Financing activities:		
Proceeds from borrowings	224.5	111.5
Repayment of borrowings	(217.0)	(272.6)
Purchases of common stock for treasury	(41.7)	(162.7)
Excess income tax benefit from employee stock plans	3.6	4.6
Proceeds from issuance of common stock	1.7	2.5
Bond proceeds		300.0
Purchased call option		(88.8)
Proceeds from sale of warrant		52.0
Deferred financing costs		(6.8)
Other	(0.7)	(1.1)
Net cash used in financing activities	(29.6)	(61.4)
Increase (decrease) in cash and cash equivalents	17.1	(5.4)
Cash and cash equivalents at beginning of period	42.2	50.9
Cash and cash equivalents at end of period	$ 59.3	$ 45.5

See accompanying notes to the condensed consolidated financial statements.

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ANIXTER INTERNATIONAL INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in Anixter International Inc. s (the Company) Annual Report on Form 10-K for the year ended December 28, 2007. The condensed consolidated financial information furnished herein reflects all adjustments (consisting of normal recurring accruals), which are, in the opinion of management, necessary for a fair presentation of the condensed consolidated financial statements for the periods shown. Certain reclassifications have been made to conform to the current year presentation. The results of operations of any interim period are not necessarily indicative of the results that may be expected for a full fiscal year.

Recently issued accounting pronouncements: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements but does not change existing guidance as to whether or not an instrument is carried at fair value. In February 2008, the FASB released a FASB Staff Position, which delayed the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the condensed consolidated financial statements on a recurring basis. SFAS No. 157 was first effective for the Company on December 29, 2007 (the beginning of fiscal 2008 for the Company). The adoption of SFAS No. 157 on the Company s financial assets and liabilities, which are principally comprised of cash equivalents and derivatives, did not have a significant impact on their fair value measurements or require expanded disclosures since the fair value of its financial assets and liabilities outstanding during the first quarter of 2008 was not material.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)), which replaces SFAS No. 141 and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, which will be fiscal year 2009 for the Company. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 141(R) on the Company s condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of Financial Accounting Standards Board Statement No. 133* (SFAS No. 161). The objective of this Statement is to expand the disclosure requirements in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and provide an enhanced understanding of why an entity uses derivative instruments, how the entity accounts for derivative instruments and related hedged items and how derivative instruments and related hedged items affect the entity s financial statements. SFAS No. 161 is effective as of the beginning of an entity s fiscal year or interim period that begins after November 15, 2008, which will be fiscal year 2009 for the Company. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS No. 161 on the Company s condensed consolidated financial statements.

ANIXTER INTERNATIONAL INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. COMPREHENSIVE INCOME

Comprehensive income, net of tax, consisted of the following:

	13 Weeks Ended	
(In millions)	**March 28, 2008**	**March 30, 2007**
Net income	$ 57.7	$ 53.6
Change in cumulative translation adjustment	4.6	1.3
Change in unrecognized pension liability	0.9	0.4
Change in fair market value of derivatives	(0.7)	0.3
Comprehensive income	$ 62.5	$ 55.6

NOTE 3. INCOME PER SHARE

The following table sets forth the computation of basic and diluted income per share:

	13 Weeks Ended	
(In millions, except per share data)	**March 28, 2008**	**March 30, 2007**
Basic Income per Share:		
Net income	$ 57.7	$ 53.6
Weighted-average common shares outstanding	35.9	37.8
Net income per basic share	$ 1.61	$ 1.42
Diluted Income per Share:		
Net income	$ 57.7	$ 53.6
Weighted-average common shares outstanding	35.9	37.8
Effect of dilutive securities:		
Stock options and units	0.9	1.3
Convertible notes due 2033	3.0	2.9
Weighted-average common shares outstanding	39.8	42.0
Net income per diluted share	$ 1.45	$ 1.27

The Convertible Senior Notes due 2013 (Notes due 2013) were originally issued in February of 2007. Upon conversion, holders will receive cash up to the principal amount, and any excess conversion value will be delivered, at the Company s election in cash, common stock or a combination of cash and common stock. When the Company s average stock price for the reporting period exceeds the conversion price of $63.48, additional shares are required to be included in the diluted weighted-average common shares outstanding. No shares have been included in the diluted weighted-average common shares outstanding for the 13 weeks ended March 28, 2008 and March 30, 2007 as the Notes due 2013 were not dilutive.

ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Convertible Notes due 2033 (Notes due 2033) were originally issued in July of 2003 and were convertible into 15.067 shares of the Company s common stock during the 13 weeks ended March 28, 2008 and March 30, 2007. As a result of the conversion value exceeding the accreted principal, 3.0 million and 2.9 million additional shares related to the Notes due 2033 have been included in the diluted weighted-average common shares outstanding for the 13 weeks ended March 28, 2008 and March 30, 2007, respectively. Upon conversion, the Company is required to deliver an amount of cash equal to the accreted principal amount and a number of common stock shares with a value equal to the amount, if any, by which the conversion value exceeds the accreted principal amount at the time of the conversion.

In both of the 13 weeks ended March 28, 2008 and March 30, 2007, the Company issued 0.3 million shares due to stock option exercises and vesting of stock units.

NOTE 4. INCOME TAXES

The Company s income tax expense for the 13 weeks ended March 28, 2008 reflects an effective tax rate of 35.7% as compared to 33.2% in the corresponding period in the prior year. The first quarter of 2008 includes a benefit of $1.6 million, or $0.04 per diluted share, related to the reversal of valuation allowances associated with certain foreign net operating loss carryforwards. The effective tax rate for the corresponding period in 2007 includes a benefit of $3.4 million, or $0.08 per diluted share, for tax benefits primarily related to the settlement of certain income tax audits. Excluding these tax benefits, the Company s effective tax rate in the 13 weeks ended March 28, 2008 and March 30, 2007 was 37.5% and 37.1%, respectively.

NOTE 5. PENSION PLANS

The Company has various defined benefit and defined contribution pension plans. The defined benefit plans are the Anixter Inc. Pension Plan, Executive Benefit Plan and Supplemental Executive Retirement Plan (together the Domestic Plans) and various pension plans covering employees of foreign subsidiaries (Foreign Plans). The majority of the Company s pension plans are non-contributory and cover substantially all full-time domestic employees and certain employees in other countries. Retirement benefits are provided based on compensation as defined in both the Domestic and Foreign Plans. The Company s policy is to fund all plans as required by the Employee Retirement Income Security Act of 1974 (ERISA), the IRS and applicable foreign laws. Assets in the various plans consisted primarily of equity securities and fixed income investments.

Components of net periodic pension cost are as follows:

	13 Weeks Ended					
	Domestic		Foreign		Total	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(In millions)					
Service cost	$ 1.4	$ 1.5	$ 1.4	$ 1.3	$ 2.8	$ 2.8
Interest cost	2.5	2.3	2.7	2.3	5.2	4.6
Expected return on plan assets	(2.9)	(2.7)	(2.9)	(2.4)	(5.8)	(5.1)
Net amortization	0.1	0.4		0.1	0.1	0.5
Net periodic cost	$ 1.1	$ 1.5	$ 1.2	$ 1.3	$ 2.3	$ 2.8

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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. SUMMARIZED FINANCIAL INFORMATION OF ANIXTER INC.

The Company guarantees, fully and unconditionally, substantially all of the debt of its subsidiaries, which include Anixter Inc. The Company has no independent assets or operations and all other subsidiaries other than Anixter Inc. are minor. The following summarizes the financial information for Anixter Inc. (in millions):

ANIXTER INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 28, 2008 (Unaudited)	December 28, 2007
Assets:		
Current assets	$ 2,414.7	$ 2,379.0
Property, equipment and capital leases, net	99.7	96.8
Goodwill	407.7	403.2
Other assets	145.4	146.0
	$ 3,067.5	$ 3,025.0
Liabilities and Stockholder s Equity:		
Current liabilities	$ 949.5	$ 935.3
Subordinated notes payable to parent	61.0	112.5
Long-term debt	506.2	495.5
Other liabilities	92.0	90.9
Stockholder s equity	1,458.8	1,390.8
	$ 3,067.5	$ 3,025.0

ANIXTER INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	13 Weeks Ended	
	March 28, 2008	**March 30, 2007**
Net sales	$1,471.6	$1,328.7
Operating income	$ 102.6	$ 91.5
Income before income taxes	$ 91.7	$ 81.3
Net income	$ 52.4	$ 54.6

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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCKHOLDERS EQUITY

Share Repurchase

In the first quarter of 2008, the Company repurchased approximately 0.7 million common shares at an average cost of $55.66 per share. Purchases were made in the open market and were financed primarily from cash provided by operations. In the first quarter of 2007, the Company repurchased 3.0 million common shares at an average cost of $54.23 per share. Purchases were made in the open market and were financed from cash provided by operations and the net proceeds from the issuance of the Notes due 2013.

Stock-Based Compensation

The Company has historically granted stock options and stock units under the Company s Stock Incentive Plan (Incentive Plan). At March 28, 2008, there were 1.2 million shares reserved from the 2006 Stock Incentive Plan and 0.1 million shares reserved from the previous plans for additional stock option awards or stock grants. The Company s Director Stock Unit Plan allows the Company to pay its non-employee directors annual retainer fees and, at their election, meeting fees in the form of stock units. Employee and director stock units are included in common stock outstanding on the date of vesting and stock options are included in common stock outstanding upon exercise by the participant. In accordance with SFAS 123(R), *Share-Based Payment*, the fair value of stock options and stock units is amortized over the respective vesting period representing the requisite service period. Compensation expense associated with stock options and stock units was $3.5 million and $2.7 million in the first quarter of 2008 and 2007, respectively.

The Company granted approximately 0.2 million stock units to employees during the first quarter of 2008. The grant-date fair value of the employee stock units was $65.39. During the first quarter of 2008, the Company granted directors approximately 7,000 stock units with a grant-date fair value of $62.27. The Company granted approximately 0.2 million stock options to employees, during the first quarter of 2008, that had a grant-date fair value of $23.69 and an exercise price of $65.39. The weighted-average fair value of the stock options granted in the first quarter of 2008 was estimated using the Black-Scholes option pricing model with the following assumptions:

Expected Stock Price Volatility	Risk-Free Interest Rate	Expected Dividend Yield	Average Expected Life
28%	3.0%	0%	7 years

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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. BUSINESS SEGMENTS

The Company is engaged in the distribution of communications and specialty wire and cable products and C Class inventory components from top suppliers to contractors and installers, and also to end users including manufacturers, natural resources companies, utilities and original equipment manufacturers who use the Company s products as a component in their end product. The Company is organized by geographic regions, and accordingly, has identified North America (United States and Canada), Europe and Emerging Markets (Asia Pacific and Latin America) as reportable segments. The Company obtains and coordinates financing, tax, information technology, legal and other related services, certain of which are rebilled to subsidiaries. Certain corporate expenses are allocated to the segments based primarily on specific identification, projected sales and estimated use of time. Interest expense and other non-operating items are not allocated to the segments or reviewed on a segment basis. Intercompany transactions are not significant.

Segment information for the 13 weeks ended March 28, 2008 and March 30, 2007 was as follows (in millions):

	13 Weeks Ended	
	March 28, 2008	March 30, 2007
Net sales:		
United States	$ 858.4	$ 795.6
Canada	158.4	131.4
North America	1,016.8	927.0
Europe	340.0	305.1
Emerging Markets	114.8	96.6
	$ 1,471.6	$ 1,328.7
Operating income:		
United States	$ 68.0	$ 58.7
Canada	12.6	12.1
North America	80.6	70.8
Europe	13.9	14.0
Emerging Markets	7.0	5.6
	$ 101.5	$ 90.4

	March 28, 2008	December 28, 2007
Total assets:		
United States	$ 1,635.9	$ 1,653.1
Canada	254.0	267.2
North America	1,889.9	1,920.3

Europe	897.1	825.0
Emerging Markets	278.8	270.9
	$ 3,065.8	$ 3,016.2

ANIXTER INTERNATIONAL INC.
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in goodwill allocated to the Company s reportable segments during the 13 weeks ended March 28, 2008 (in millions):

	December 28, 2007	Acquisition Related	Other	March 28, 2008
United States	$ 266.6	$	$	$ 266.6
Canada	16.9		(0.6)	16.3
North America	283.5		(0.6)	282.9