

ANIXTER INTERNATIONAL INC

Form 10-Q

May 04, 2011

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

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

For the quarterly period ended April 1, 2011

OR

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

For the transition period from _____ to _____

**Commission File Number: 001-10212
ANIXTER INTERNATIONAL INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

94-1658138

(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 ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Smaller Reporting
Company ☐

(Do not check if a smaller reporting company)

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

At April 29, 2011, 34,550,316 shares of the registrant's Common Stock, \$1.00 par value, were outstanding.

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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. These statements can be identified by the use of forward-looking terminology such as believe, expects, intends, anticipates, contemplates, estimates, plans, projects, should, may, will 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, risks associated with the integration of recently acquired companies and the impact of regulation and regulatory, investigative and legal proceedings and legal compliance risks.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.**

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

	Three Months Ended	
	April 1, 2011	April 2, 2010
(In millions, except per share amounts)		
Net sales	\$ 1,517.5	\$ 1,272.6
Cost of goods sold	1,164.8	982.9
Gross profit	352.7	289.7
Operating expenses	269.6	232.7
Operating income	83.1	57.0
Other (expense) income:		
Interest expense	(12.8)	(15.6)
Net gain (loss) on retirement of debt	0.1	(30.5)
Other, net	0.5	(1.1)
Income before income taxes	70.9	9.8
Income tax expense	26.6	3.9
Net income	\$ 44.3	\$ 5.9
Net income per share:		
Basic	\$ 1.29	\$ 0.17
Diluted	\$ 1.23	\$ 0.16

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)	April 1, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 107.6	\$ 78.4
Accounts receivable, net (Includes \$401.0 at April 1, 2011 and \$407.8 at December 31, 2010 associated with securitization facility)	1,173.6	1,099.3
Inventories	1,083.9	1,002.7
Deferred income taxes	59.6	50.3
Other current assets	40.8	50.5
 Total current assets	 2,465.5	 2,281.2
Property and equipment, at cost	297.6	288.9
Accumulated depreciation	(211.2)	(204.3)
 Net property and equipment	 86.4	 84.6
Goodwill	375.3	374.3
Other assets	181.0	193.2
	\$ 3,108.2	\$ 2,933.3
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 726.5	\$ 648.7
Short-term debt (Includes \$200.0 at both April 1, 2011 and December 31, 2010 associated with securitization facility)	210.1	203.6
Accrued expenses	200.9	218.9
 Total current liabilities	 1,137.5	 1,071.2
Long-term debt	752.7	688.8
Other liabilities	150.9	162.5
 Total liabilities	 2,041.1	 1,922.5
Stockholders equity:		
Common stock \$1.00 par value, 100,000,000 shares authorized, 34,726,463 and 34,323,061 shares issued and outstanding in 2011 and 2010, respectively	34.7	34.3
Capital surplus	222.7	230.1
Retained earnings	818.6	774.2
Accumulated other comprehensive income (loss):		
Foreign currency translation	33.6	16.8
Unrecognized pension liability	(42.4)	(43.9)
Unrealized loss on derivatives, net	(0.1)	(0.7)

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Total accumulated other comprehensive loss	(8.9)	(27.8)
Total stockholders' equity	1,067.1	1,010.8
	\$ 3,108.2	\$ 2,933.3

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended	
	April	
	1,	April 2,
	2011	2010
	(In millions)	
Operating activities:		
Net income	\$ 44.3	\$ 5.9
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net (gain) loss on retirement of debt	(0.1)	30.5
Depreciation	5.4	5.7
Deferred income taxes	4.9	2.6
Accretion of debt discount	4.4	5.0
Amortization of intangible assets	2.9	2.9
Stock-based compensation	1.7	4.1
Amortization of deferred financing costs	0.6	0.8
Excess income tax benefit from employee stock plans	(3.8)	
Changes in current assets and liabilities, net	(64.1)	17.2
Other, net	(1.7)	
Net cash (used in) provided by operating activities	(5.5)	74.7
Investing activities:		
Capital expenditures, net	(6.1)	(4.1)
Net cash used in investing activities	(6.1)	(4.1)
Financing activities:		
Proceeds from borrowings	279.4	162.2
Repayment of borrowings	(198.8)	(87.6)
Retirement of Convertible Notes due 2033 debt component	(21.1)	
Retirement of Convertible Notes due 2033 equity component	(26.8)	
Payment of cash dividend	(0.8)	
Deferred financing costs	(0.1)	
Proceeds from stock options exercised	5.2	0.9
Excess income tax benefit from employee stock plans	3.8	
Retirement of Notes due 2014		(150.8)
Purchases of common stock for treasury		(41.2)
Net cash provided by (used in) financing activities	40.8	(116.5)
Increase (decrease) in cash and cash equivalents	29.2	(45.9)
Cash and cash equivalents at beginning of period	78.4	111.5
Cash and cash equivalents at end of period	\$ 107.6	\$ 65.6

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**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 31, 2010. 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 amounts have been reclassified 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.

NOTE 2. COMPREHENSIVE INCOME

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

(In millions)	Three Months Ended	
	April 1, 2011	April 2, 2010
Net income	\$ 44.3	\$ 5.9
Foreign currency translation	16.8	7.0
Changes in unrealized pension cost	1.5	2.1
Changes in fair market value of derivatives	0.6	(0.9)
Comprehensive income	\$ 63.2	\$ 14.1

NOTE 3. INCOME PER SHARE

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

(In millions, except per share data)	Three Months Ended	
	April 1, 2011	April 2, 2010
Basic Income per Share:		
Net income	\$ 44.3	\$ 5.9
Weighted-average common shares outstanding	34.5	34.2
Net income per basic share	\$ 1.29	\$ 0.17
Diluted Income per Share:		
Net income	\$ 44.3	\$ 5.9
Weighted-average common shares outstanding	34.5	34.2
Effect of dilutive securities:		
Stock options and units	0.6	0.5
Convertible notes due 2033	0.5	1.1
Convertible notes due 2013	0.5	
Diluted weighted-average common shares outstanding	36.1	35.8

Net income per diluted share		\$ 1.23	\$ 0.16
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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's \$300 million convertible notes due 2013 (Notes due 2013) are not currently convertible. In periods when the Notes due 2013 are convertible, any conversion will be settled in 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. As a result of the Company's average stock price exceeding the conversion price of \$59.78 per share during the three months ended April 1, 2011, 0.5 million additional shares related to the Notes due 2013 were included in the diluted weighted-average common shares outstanding. The Company's average stock price for the three months ended April 2, 2010 did not exceed the conversion price and, therefore, the Notes due 2013 were antidilutive for this period.

The Company's 3.25% zero coupon convertible notes due 2033 (Notes due 2033) are currently convertible. In periods when the Notes due 2033 are convertible, any conversion will be settled in cash up to the accreted principal amount, and any amount in excess of the accreted principal value will be settled in common stock. As a result of the conversion value exceeding the average accreted principal value during the three months ended April 1, 2011 and April 2, 2010, the Company included 0.5 million and 1.1 million additional shares, respectively, related to the Notes due 2033 in the diluted weighted-average common shares outstanding.

In the three months ended April 1, 2011 and April 2, 2010, 0.6 million and 0.5 million additional shares, respectively, were included in the computation of diluted earnings per share relating to exercisable stock options and units because the effect of these common stock equivalents were dilutive during the periods presented.

In the three months ended April 1, 2011 and April 2, 2010, the Company issued 0.4 million and 0.2 million shares, respectively, related to stock option exercises and vesting of stock units. During the three months ended April 2, 2010, the Company repurchased 1 million of its outstanding shares. No repurchases were made in the three months ended April 1, 2011.

NOTE 4. INCOME TAXES

The first quarter of 2011 tax provision was \$26.6 million compared to \$3.9 million in the corresponding period of last year. The Company's effective tax rate for the three months ended April 1, 2011 was 37.5% as compared to 40.0% in the prior year period. The difference between the statutory corporate federal tax rate of 35% and the Company's effective tax rate was primarily due to state income taxes.

NOTE 5. DEBT

At April 1, 2011, the Company's total debt outstanding was \$962.8 million as compared to \$892.4 million at December 31, 2010. The Company's weighted-average cost of borrowings was 5.2% and 7.4% for the three months ended April 1, 2011 and April 2, 2010, respectively.

Repurchases of Debt

During the first three months of 2011, the Company repurchased a portion of the Notes due 2033 for \$46.7 million. Available borrowings under the Company's long-term revolving credit facility were used to repurchase these notes. In connection with the repurchases, the Company reduced the accreted value of the debt by \$20.0 million, recorded a reduction in equity of \$16.6 million and a reduction of deferred tax liabilities of \$10.2 million. These reductions were based on the fair value of the liability and equity components at the time of repurchase. The repurchases resulted in the recognition of a pre-tax gain on retirement of debt of \$0.1 million in the three months ended April 1, 2011.

During the three months ended April 1, 2011, bondholders of the Notes due 2033 converted \$2.5 million of principal amount at maturity. The conversion value of the bonds converted was approximately \$2.8 million. The Company paid approximately \$1.2 million in cash to reduce the accreted value of debt at the time of conversion and the remaining conversion value of \$1.6 million was settled in stock.

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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the first quarter of 2010, the Company repurchased \$121.9 million of accreted value of its 10% Senior Notes due 2014 (Notes due 2014) for \$150.8 million. Available cash and other borrowings were used to repurchase these notes. As a result of the repurchase, the Company recognized a pre-tax loss of \$30.5 million, inclusive of \$2.5 million of debt issuance costs that were written off and \$0.3 million of fees associated with the repurchase.

Short-term Borrowings

As of April 1, 2011 and December 31, 2010, the Company's short-term debt outstanding was \$210.1 million and \$203.6 million, respectively. Short-term debt consists primarily of the funding related to the accounts receivable securitization facility (ARC) which matures in July of 2011. Under Anixter's accounts receivable securitization program, the Company sells, on an ongoing basis without recourse, a majority of the accounts receivable originating in the United States to ARC, which is considered a wholly-owned, bankruptcy-remote variable interest entity (VIE). The Company is the primary beneficiary as defined by accounting guidance and, therefore, consolidates the account balances of ARC. As of April 1, 2011 and December 31, 2010, \$401.0 million and \$407.8 million of the Company's receivables were sold to ARC, respectively. ARC in turn sells an interest in these receivables to a financial institution for proceeds of up to \$200.0 million. The assets of ARC (limited to the amount of outstanding borrowings) are not available to creditors of Anixter in the event of bankruptcy or insolvency proceedings.

Other

Certain debt agreements entered into by the Company's operating subsidiaries contain various restrictions, including restrictions on payments to the Company. These restrictions have not had, nor are expected to have, an adverse impact on the Company's ability to meet its cash obligations. The Company has approximately \$184.6 million in available, committed, unused credit lines (\$234.6 million after consideration of the refinance of the revolving credit agreement in April 2011. See Note 14. Subsequent Event for further information). At April 1, 2011, the Company has drawn \$200.0 million of borrowings under its \$200 million accounts receivable facility.

The Company may redeem its Notes due 2033, in whole or in part, on July 7, 2011 for cash at the accreted value. Additionally, holders may require the Company to purchase all or a portion of their Convertible Notes due 2033 at various prices on certain future dates beginning July 7, 2011. The Company is required to pay the purchase price in cash. The Notes due 2033 are structurally subordinated to the indebtedness of Anixter. Although the notes were convertible at April 1, 2011, they are classified as long-term as the Company has the intent and ability to refinance the accreted value under existing long-term financing agreements available at April 1, 2011.

See Note 7. Fair Value Measurements for information related to the fair value of outstanding debt obligations.

NOTE 6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest rate agreements: The Company uses interest rate swaps to reduce its exposure to fluctuations in interest rates. The objective of the currently outstanding interest rate swaps (cash flow hedges) is to convert variable interest to fixed interest associated with forecasted interest payments resulting from revolving borrowings in the U.K. and continental Europe and are designated as hedging instruments. The Company does not enter into interest rate transactions for speculative purposes. Changes in the value of the interest rate swaps are expected to be highly effective in offsetting the changes attributable to fluctuations in the variable rates. The Company's counterparties to its interest rate swap contracts have investment-grade credit ratings. The Company expects the creditworthiness of its counterparties to remain intact through the term of the transactions. When entered into, these financial instruments were designated as hedges of underlying exposures (interest payments associated with the U.K. and continental Europe borrowings) attributable to changes in the respective benchmark interest rates.

As of April 1, 2011, the Company had two interest rate swap agreements outstanding with notional amounts of GBP 15 million and Euro 25 million. The GBP swap agreement obligates the Company to pay a fixed rate through July 2012 while the Euro swap agreement obligates the Company to pay a fixed rate through November 2011.

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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Foreign currency forward contracts: The Company purchases foreign currency forward contracts to minimize the effect of fluctuating foreign currency-denominated accounts on its reported income. The foreign currency forward contracts are not designated as hedges for accounting purposes. The Company's strategy is to negotiate terms for its derivatives and other financial instruments to be perfectly effective, such that the change in the value of the derivative perfectly offsets the impact of the underlying hedged item (e.g., various foreign currency-denominated accounts). The Company's counterparties to its foreign currency forward contracts have investment-grade credit ratings. The Company expects the creditworthiness of its counterparties to remain intact through the term of the transactions. The Company regularly monitors the creditworthiness of its counterparties to ensure no issues exist which could affect the value of the derivatives.

At April 1, 2011 and December 31, 2010, foreign currency forward contracts were revalued at then-current foreign exchange rates, with the changes in valuation reflected directly in Other, net in the Condensed Consolidated Statements of Operations offsetting the transaction gain/loss recorded on the foreign currency-denominated accounts. At April 1, 2011 and December 31, 2010, the notional amount of the foreign currency forward contracts outstanding was approximately \$205.3 million and \$223.0 million, respectively. The Company recorded gains on its foreign currency forward contracts in the three months ended April 1, 2011 and April 2, 2010 of \$2.2 million and \$3.5 million, respectively. Offsetting the gains were costs associated with the hedging programs of \$0.5 million in both the three months ended April 1, 2011 and April 2, 2010. The Company recorded losses on the foreign-denominated accounts that were hedged of \$2.4 million and \$4.8 million in the first quarters of 2011 and 2010, respectively. The Company does not hedge 100% of its foreign-denominated accounts and results of the hedging can vary significantly based on various factors, such as the timing of executing the foreign currency forward contracts versus the movement of the currencies as well as the fluctuations in the account balances throughout each reporting period.

See Note 7. Fair Value Measurements for information related to the fair value of interest rate agreements and foreign currency forward contracts.

NOTE 7. FAIR VALUE MEASUREMENTS

The fair value of the Company's debt instruments is measured using observable market information which would be considered Level 2 in the fair value hierarchy described in accounting guidance on fair value measurements.

The Company's fixed-rate debt primarily consists of nonconvertible and convertible debt as follows:

Nonconvertible fixed-rate debt consisting of the Company's \$200.0 million 5.95% Senior Notes due 2015 (Notes due 2015) and Notes due 2014.

Convertible fixed-rate debt consisting of the Company's Notes due 2013 and Notes due 2033.

At April 1, 2011, the Company's carrying value of its fixed-rate debt was \$526.5 million as compared to \$543.3 million at December 31, 2010. The estimated fair market value of the Company's fixed-rate debt at April 1, 2011 and December 31, 2010 was \$670.3 million and \$672.8 million, respectively. The decline in the carrying value and estimated fair market value is due to the repurchase of a portion of the Notes due 2033 in the three months ended April 1, 2011. As of April 1, 2011 and December 31, 2010, the Company's carrying value of its variable-rate debt was \$436.3 million and \$349.1 million, respectively, which approximates the estimated fair market value.

The fair value of the interest rate swaps is determined by means of a mathematical model that calculates the present value of the anticipated cash flows from the transaction using mid-market prices and other economic data and assumptions, or by means of pricing indications from one or more other dealers selected at the discretion of the respective banks. These inputs would be considered Level 2 in the fair value hierarchy described in accounting guidance on fair value measurements. At April 1, 2011 and December 31, 2010, interest rate swaps were revalued at current interest rates with the changes in valuation reflected directly in Accumulated Other Comprehensive Income (Loss) in the Company's Condensed Consolidated Balance Sheets. The fair market value of the Company's outstanding interest rate agreements, which is the estimated exit price that the Company would pay to cancel the interest rate agreements, was not significant at April 1, 2011 or December 31, 2010.

Table of Contents**ANIXTER INTERNATIONAL INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair value of the Company's foreign currency forward contracts was not significant at April 1, 2011 or December 31, 2010. The fair value of the foreign currency forward contracts is based on the difference between the contract rate and the current exchange rate. The fair value of the foreign currency forward contracts is measured using observable market information. These inputs would be considered Level 2 in the fair value hierarchy.

NOTE 8. PENSION PLANS

The Company has various defined benefit and defined contribution pension plans. The defined benefit plans of the Company are the Anixter Inc. Pension Plan, Executive Benefit Plan and Supplemental Executive Retirement Plan (SERP) (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 Domestic Plans as required by the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Service (IRS) and all Foreign Plans as required by applicable foreign laws. The Executive Benefit Plan and SERP are the only two plans that are unfunded. Assets in the various plans consist primarily of equity securities and fixed income investments.

Components of net periodic pension cost are as follows (in millions):

	Domestic		Three Months Ended Foreign		Total	
	April 1, 2011	April 2, 2010	April 1, 2011	April 2, 2010	April 1, 2011	April 2, 2010
Service cost	\$ 1.7	\$ 1.6	\$ 1.3	\$ 1.2	\$ 3.0	\$ 2.8
Interest cost	3.1	2.9	2.4	2.5	5.5	5.4
Expected return on plan assets	(3.0)	(2.7)	(2.5)	(2.3)	(5.5)	(5.0)
Net amortization	0.9	0.8	0.1	0.2	1.0	1.0
Curtailment	0.6				0.6	
Net periodic cost	\$ 3.3	\$ 2.6	\$ 1.3	\$ 1.6	\$ 4.6	\$ 4.2

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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 subsidiaries other than Anixter Inc. are minor. The following summarizes the financial information for Anixter Inc. (in millions):

ANIXTER INC.**CONDENSED CONSOLIDATED BALANCE SHEETS**

	April 1, 2011 (Unaudited)	December 31, 2010
Assets:		
Current assets	\$ 2,468.8	\$ 2,284.3
Property, equipment and capital leases, net	101.3	99.8
Goodwill	375.3	374.3
Other assets	179.4	191.3
	\$ 3,124.8	\$ 2,949.7
Liabilities and Stockholder's Equity:		
Current liabilities	\$ 1,134.6	\$ 1,067.4
Subordinated notes payable to parent	10.5	8.5
Long-term debt	475.0	394.4
Other liabilities	150.1	160.6
Stockholder's equity	1,354.6	1,318.8
	\$ 3,124.8	\$ 2,949.7

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

	Three Months Ended April 1, 2011	April 2, 2010
Net sales	\$1,517.5	\$1,272.6
Operating income	\$ 84.4	\$ 58.5
Income before income taxes	\$ 76.9	\$ 16.3
Net income	\$ 48.9	\$ 12.4

NOTE 10. RESTRUCTURING CHARGE

In order to improve the Company's European profitability, management approved a facility consolidation and headcount reduction plan during the first quarter of 2011 that will eliminate a number of European facilities and reduce operating costs. As a result, the Company recorded a pre-tax charge of \$5.3 million and is included in

Operating Expenses in the Company's Condensed Consolidated Statement of Operations for the three months ended April 1, 2011. The charge includes certain exit costs and employee severance charges which are expected to be fully paid by the end of fiscal 2013. Additional costs of approximately \$0.8 million related to moving expenses are

expected to be recorded when incurred.

Table of Contents**ANIXTER INTERNATIONAL INC.****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 11. STOCKHOLDERS' EQUITY***Stock-Based Compensation*

At the end of the three months ended April 1, 2011, there were 2.2 million shares reserved for issuance under various incentive plans. 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. The fair value of stock options and stock units is amortized over the respective vesting period representing the requisite service period.

The Company granted approximately 0.1 million stock units to employees during the three months ended April 1, 2011. The grant-date fair value of the employee stock units was \$70.02. During the three months ended April 1, 2011, the Company granted directors approximately 12,539 stock units with a weighted-average grant-date fair value of \$64.54. The Company granted approximately 0.1 million stock options to employees during the three months ended April 1, 2011, that had a grant-date fair value of \$28.76 and an exercise price of \$70.02. The fair value of the stock options granted in the three months ended April 1, 2011 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
38%	2.5%	0%	6.13 years

Share Repurchase

During the three months ended April 2, 2010, the Company repurchased 1.0 million of its outstanding shares at an average cost of \$41.24 per share. Purchases were made in the open market using available cash on hand. No repurchases were made in the three months ended April 1, 2011.

NOTE 12. LEGAL CONTINGENCIES

In April 2008, the Company voluntarily disclosed to the U.S. Departments of Treasury and Commerce that one of its foreign subsidiaries may have violated U.S. export control laws and regulations in connection with re-exports of goods to prohibited parties or destinations including Cuba and Syria, countries identified by the State Department as state sponsors of terrorism. The Company has performed a thorough review of its export and re-export transactions and did not identify any other potentially significant violations. The Company has determined appropriate corrective actions. The Company has submitted the results of its review and its corrective action plan to the applicable U.S. government agencies. Civil penalties may be assessed against the Company in connection with any violations that are determined to have occurred, but based on information currently available, management does

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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not believe that the ultimate resolution of this matter will have a material effect on the business, operations or financial condition of the Company.

On May 20, 2009, Raytheon Co. filed for arbitration against one of the Company's subsidiaries, Anixter Inc., alleging that it had supplied non-conforming parts to Raytheon. Raytheon sought damages of approximately \$26 million. The arbitration hearing concluded on October 22, 2010 and the arbitration panel rendered its decision on December 13, 2010. The arbitration panel entered an interim award against the Company in the amount of \$20.8 million. On April 15, 2011, the arbitration panel finalized the award to Raytheon to cover their attorneys' fees and arbitration proceeding costs in the amount of \$1.5 million and the arbitration proceeding was closed. The Company has appealed the awards. The Company recorded a pre-tax charge of \$20.0 million in the fourth quarter of 2010 which approximates the expected cost of the award after consideration of insurance proceeds, fees, costs and interest on the award at 10% per annum until paid. There were no significant changes to the Company's accrual for this matter during the first quarter of 2011.

On September 11, 2009, the Garden City Employees' Retirement System filed a purported class action under the federal securities laws in the United States District Court for the Northern District of Illinois against the Company, its current and former chief executive officers and its chief financial officer. On November 18, 2009, the Court entered an order appointing the Indiana Laborers Pension Fund as lead plaintiff and appointing lead plaintiff's counsel. On January 6, 2010, the lead plaintiff filed an amended complaint. The amended complaint principally alleges that the Company made misleading statements during 2008 regarding certain aspects of its financial performance and outlook. The amended complaint seeks unspecified damages on behalf of persons who purchased the common stock of the Company between January 29 and October 20, 2008. On March 31, 2011, the Court dismissed the complaint but allowed the lead plaintiff the opportunity to re-plead its complaint. Plaintiff did so on April 28, 2011. The Company and the other defendants intend to continue to defend themselves vigorously against the allegations. Based on facts known to management at this time, the Company cannot estimate the amount of loss, if any, and, therefore, has not made any accrual for this matter in these financial statements.

In October 2009, the Company disclosed to the U.S. Government that it may have violated laws and regulations restricting entertainment of government employees. The Inspector General of the relevant federal agency is investigating the disclosure and the Company is cooperating in the investigation. Civil and or criminal penalties could be assessed against the Company in connection with any violations that are determined to have occurred. Based on facts known to management at this time, the Company cannot estimate the amount of loss, if any, and, therefore, has not made any accrual for this matter in these financial statements.

From time to time, in the ordinary course of business, the Company and its subsidiaries become involved as plaintiffs or defendants in various other legal proceedings not enumerated above. The claims and counterclaims in such other legal proceedings, including those for punitive damages, individually in certain cases and in the aggregate, involve amounts that may be material. However, it is the opinion of the Company's management, based on the advice of its counsel, that the ultimate disposition of those proceedings will not be material.

NOTE 13. BUSINESS SEGMENTS

The Company is engaged in the distribution of communications and security products, electrical wire and cable products and fasteners and other small parts (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.

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ANIXTER INTERNATIONAL INC.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segment information for the three months ended April 1, 2011 and April 2, 2010 and as of April 1, 2011 and December 31, 2010 was as follows (in millions):

	Three Months Ended	
	April 1, 2011	April 2, 2010
Net sales:		
North America	\$ 1,069.7	\$ 896.1
Europe	291.3	253.2
Emerging Markets	156.5	123.3