INGRAM MICRO INC
Form 10-Q
July 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _______ to _______

Commission file number: 1-12203

Ingram Micro Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**62-1644402**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1600 E. St. Andrew Place, Santa Ana, California 92705-4926

(Address, including zip code, of principal executive offices)

(714) 566-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	x	Accelerated Filer	¨
Non-Accelerated Filer	¨ (Do not check if a smaller reporting company)	Smaller Reporting Company	¨

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

The Registrant had 150,083,861 shares of Class A Common Stock, par value $0.01 per share, outstanding at June 30, 2012.

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Part I. Financial Information

Item 1. Financial Statements

INGRAM MICRO INC.

CONSOLIDATED BALANCE SHEET

(In 000s, except par value)

(Unaudited)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 981,244	$ 891,403
Trade accounts receivable (less allowances of $59,904 and $60,236)	3,689,677	4,465,329
Inventory	3,194,271	2,942,164
Other current assets	336,398	319,506
Total current assets	8,201,590	8,618,402
Property and equipment, net	344,287	323,261
Intangible assets, net	67,521	73,330
Other assets	139,443	131,523
Total assets	$ 8,752,841	$ 9,146,516
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,408,717	$ 4,893,437
Accrued expenses	422,176	524,010
Short-term debt and current maturities of long-term debt	143,437	92,428
Total current liabilities	4,974,330	5,509,875
Long-term debt, less current maturities	320,470	300,000
Other liabilities	79,583	63,864
Total liabilities	5,374,383	5,873,739
Commitments and contingencies (Note 12)		
Stockholders equity:		
Preferred Stock, $0.01 par value, 25,000 shares authorized; no shares issued and outstanding		
Class A Common Stock, $0.01 par value, 500,000 shares authorized; 188,116 and 185,127 shares issued and 150,084 and 149,484 shares outstanding in 2012 and 2011, respectively	1,881	1,851
Class B Common Stock, $0.01 par value, 135,000 shares authorized; no shares issued and outstanding		
Additional paid-in capital	1,346,362	1,316,596
Treasury stock, 38,032 and 35,643 shares in 2012 and 2011, respectively	(648,124)	(604,331)
Retained earnings	2,596,242	2,444,995
Accumulated other comprehensive income	82,097	113,666
Total stockholders equity	3,378,458	3,272,777

Total liabilities and stockholders equity	$ 8,752,841	$ 9,146,516

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.

CONSOLIDATED STATEMENT OF INCOME

(In 000s, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales	$ 8,777,895	$ 8,749,025	$ 17,413,276	$ 17,472,737
Cost of sales	8,325,165	8,289,793	16,492,989	16,559,433
Gross profit	452,730	459,232	920,287	913,304
Operating expenses:				
Selling, general and administrative	354,106	362,084	717,055	716,371
Reorganization costs (credits)	839		1,396	(269)
	354,945	362,084	718,451	716,102
Income from operations	97,785	97,148	201,836	197,202
Other expense (income):				
Interest income	(2,200)	(1,251)	(5,966)	(2,624)
Interest expense	11,577	14,318	23,306	27,513
Net foreign currency exchange loss (gain)	1,794	(2,974)	7,360	35
Other	3,156	3,233	5,088	7,051
	14,327	13,326	29,788	31,975
Income before income taxes	83,458	83,822	172,048	165,227
Provision for income taxes	22,184	24,091	20,801	49,186
Net income	$ 61,274	$ 59,731	$ 151,247	$ 116,041
Basic earnings per share	$ 0.40	$ 0.37	$ 1.00	$ 0.73
Diluted earnings per share	$ 0.40	$ 0.37	$ 0.98	$ 0.71

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In 000s)

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net income	$ 61,274	$ 59,731	$ 151,247	$ 116,041
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(80,985)	24,363	(31,638)	93,397
Unrealized holding gain on interest rate swap agreement designated as cash flow hedge		1,087		2,463
Net unrealized gain (loss) on foreign currency forward contracts designated as cash flow hedges	227	(13)	69	(347)
Other comprehensive income (loss), net of tax	(80,758)	25,437	(31,569)	95,513
Comprehensive income (loss)	$ (19,484)	$ 85,168	$ 119,678	$ 211,554

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(In 000s)

(Unaudited)

	Twenty-six Weeks Ended	
	June 30, 2012	**July 2, 2011**
Cash flows from operating activities:		
Net income	$ 151,247	$ 116,041
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	28,232	28,167
Stock-based compensation	14,575	15,988
Excess tax benefit from stock-based compensation	(5,241)	(2,550)
Noncash charges for interest	922	969
Deferred income taxes	19,481	5,445
Changes in operating assets and liabilities, net of effects of acquisition:		
Trade accounts receivable	750,408	655,289
Inventory	(278,742)	(81,121)
Other current assets	(29,241)	40,285
Accounts payable	(427,441)	(334,616)
Change in book overdrafts	(32,067)	(99,089)
Accrued expenses	(107,830)	(67,975)
Cash provided by operating activities	84,303	276,833
Cash flows from investing activities:		
Purchases of property and equipment	(45,505)	(60,921)
Sale of (investment in) marketable trading securities	1,125	(971)
Acquisition and earn-out payments, net of cash acquired	(338)	(2,106)
Cash used by investing activities	(44,718)	(63,998)
Cash flows from financing activities:		
Proceeds from exercise of stock options	28,632	33,732
Repurchase of Class A Common Stock	(50,000)	(75,906)
Excess tax benefit from stock-based compensation	5,241	2,550
Repayments of senior unsecured term loan		(6,250)
Net proceeds from revolving credit facilities	74,193	14,657
Cash provided (used) by financing activities	58,066	(31,217)
Effect of exchange rate changes on cash and cash equivalents	(7,810)	29,603
Increase in cash and cash equivalents	89,841	211,221
Cash and cash equivalents, beginning of period	891,403	1,155,551
Cash and cash equivalents, end of period	$ 981,244	$ 1,366,772

See accompanying notes to these consolidated financial statements.

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

(Unaudited)

Note 1 Organization and Basis of Presentation

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

The consolidated financial statements include the accounts of Ingram Micro Inc. and its subsidiaries. Unless the context otherwise requires, the use of the terms Ingram Micro, we, us and our in these notes to the consolidated financial statements refers to Ingram Micro Inc. and its subsidiaries. These consolidated financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC). In the opinion of management, the accompanying unaudited consolidated financial statements contain all material adjustments (consisting of only normal, recurring adjustments) necessary to fairly state our consolidated financial position as of June 30, 2012, our consolidated results of operations and comprehensive income for the thirteen and twenty-six weeks ended June 30, 2012 and July 2, 2011 and our consolidated cash flows for the twenty-six weeks ended June 30, 2012 and July 2, 2011. All significant intercompany accounts and transactions have been eliminated in consolidation. As permitted under the applicable rules and regulations of the SEC, these consolidated financial statements do not include all disclosures and footnotes normally included with annual consolidated financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2011. The consolidated results of operations for the thirteen and twenty-six weeks ended June 30, 2012 may not be indicative of the consolidated results of operations that can be expected for the full year.

Comprehensive income

Effective January 1, 2012, we adopted the provisions of a new accounting standard and provided a consolidated statement of comprehensive income. In prior periods, the information included in this new financial statement was disclosed in the notes to our consolidated financial statements. Comprehensive income consisted primarily of our net income, foreign currency translation adjustments, fair value adjustments to our interest rate swap agreement designated as a cash flow hedge, which we settled in September 2011, and unrealized gains and losses from our foreign currency forward contracts designated as cash flow hedges.

Book Overdrafts

Book overdrafts of $479,105 and $511,172 as of June 30, 2012 and December 31, 2011, respectively, represent checks issued on disbursement bank accounts but not yet paid by such banks. These amounts are classified as accounts payable in our consolidated balance sheet. We typically fund these overdrafts through normal collections of funds or transfers from other bank balances at other financial institutions. Under the terms of our facilities with the banks, the respective financial institutions are not legally obligated to honor the book overdraft balances as of June 30, 2012 and December 31, 2011, or any balance on any given date.

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

(Unaudited)

Trade Accounts Receivable Factoring Programs

We have an uncommitted factoring program in North America under which trade accounts receivable of one large customer may be sold, without recourse, to a financial institution. The total amount of receivables factored under this program, at any point in time, cannot exceed $150,000. We also have an uncommitted factoring program in Europe under which trade accounts receivable of another large customer may be sold, without recourse, to a financial institution. The total amount of receivables factored under this program, at any point in time, cannot exceed 40,000, or approximately $51,000, at June 30, 2012 exchange rates. Available capacity under these programs is dependent on the amount of trade accounts receivable already sold to and held by the financial institutions, the level of our trade accounts receivable eligible to be sold into these programs and the financial institutions willingness to purchase such receivables. At June 30, 2012 and December 31, 2011, we had a total of $150,891 and $165,744, respectively, of trade accounts receivable sold to and held by the financial institutions under these programs. Factoring fees of $658 and $732 incurred for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and $1,962 and $1,574 for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively, related to the sale of trade accounts receivable under both facilities are included in other in the other expense (income) section of our consolidated statement of income.

Note 2 Share Repurchases

In October 2010, our Board of Directors authorized a new three-year, $400,000 share repurchase program, of which $124,095 is remaining for repurchase at June 30, 2012. Under the program, we may repurchase shares in the open market and through privately negotiated transactions. Our repurchases are funded with available borrowing capacity and cash. The timing and amount of specific repurchase transactions will depend upon market conditions, corporate considerations and applicable legal and regulatory requirements. We account for repurchased shares of common stock as treasury stock. Treasury shares are recorded at cost and are included as a component of stockholders equity in our consolidated balance sheet. We have also issued shares of common stock out of our cumulative balance of treasury shares. Such shares are issued to certain of our associates upon the exercise of their options or vesting of their equity awards under the Ingram Micro Inc. 2011 Equity Incentive Plan (see Note 4). Our stock repurchase and issuance activity for the twenty-six weeks ended June 30, 2012 and July 2, 2011 is summarized in the table below:

	Shares	Weighted Average Price Per Share	Amount
Cumulative balance at December 31, 2011	35,643	$ 16.96	$ 604,331
Repurchase of Class A Common Stock	2,729	18.32	50,000
Issuance of Class A Common Stock	(340)	18.26	(6,207)
Cumulative balance at June 30, 2012	38,032	17.04	$ 648,124
Cumulative balance at January 1, 2011	23,713	$ 16.40	$ 388,817
Repurchase of Class A Common Stock	4,081	18.60	75,906
Issuance of Class A Common Stock	(538)	19.00	(10,221)
Cumulative balance at July 2, 2011	27,256	16.68	$ 454,502

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INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

(Unaudited)

Note 3 Earnings Per Share

We report a dual presentation of Basic Earnings per Share (Basic EPS) and Diluted Earnings per Share (Diluted EPS). Basic EPS excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS uses the treasury stock method to compute the potential dilution that could occur if stock-based awards and other commitments to issue common stock were exercised.

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net income	$ 61,274	$ 59,731	$ 151,247	$ 116,041
Weighted average shares	151,428	159,383	151,110	159,931
Basic EPS	$ 0.40	$ 0.37	$ 1.00	$ 0.73
Weighted average shares, including the dilutive effect of stock-based awards (2,592 and 3,290 for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and 3,325 and 3,897 for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively)	154,020	162,673	154,435	163,828
Diluted EPS	$ 0.40	$ 0.37	$ 0.98	$ 0.71

There were approximately 2,677 and 2,381 stock-based awards for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and 2,161 and 1,375 stock-based awards for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively, that were not included in the computation of Diluted EPS because the exercise price was greater than the average market price of the Class A Common Stock during the respective periods, thereby resulting in an antidilutive effect.

Note 4 Stock-Based Compensation

We currently have a single stock incentive plan, the Ingram Micro Inc. 2011 Incentive Plan (the 2011 Plan), for the granting of equity-based incentive awards including incentive stock options, non-qualified stock options, restricted stock, restricted stock units and stock appreciation rights, among others, to key employees and members of our Board of Directors. We grant time- and/or performance-vested restricted stock and/or restricted stock units, in addition to stock options, to key employees and members of our Board of Directors. The performance measures for restricted stock and restricted stock units for grants to management for the periods presented are based on income before tax, earnings growth, return on invested capital, and total shareholders return.

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(In 000s, except per share data)

(Unaudited)

No stock options were granted during the thirteen weeks ended June 30, 2012 or July 2, 2011, while restricted stock and restricted stock units granted were 2,495 and 23, respectively. Stock options granted during the twenty-six weeks ended June 30, 2012 and July 2, 2011 were 51 and 39, respectively, and restricted stock and restricted stock units granted were 2,631 and 1,759, respectively. As of June 30, 2012, approximately 9,700 shares were available for grant under the 2011 Plan, taking into account granted options, time-vested restricted stock units/awards and performance-vested restricted stock units assuming maximum achievement. Stock-based compensation expense for the thirteen weeks ended June 30, 2012 and July 2, 2011 was $5,129 and $10,331, respectively, and the related income tax benefit was $1,330 and $2,768, respectively. Stock-based compensation expense for the twenty-six weeks ended June 30, 2012 and July 2, 2011 was $14,575 and $15,988, respectively, and the related income tax benefit was approximately $4,342 and $4,490, respectively.

During the thirteen weeks ended June 30, 2012 and July 2, 2011, a total of 588 and 283 stock options, respectively, were exercised, and 358 and 338 restricted stock and/or restricted stock units vested, respectively. For the twenty-six weeks ended June 30, 2012 and July 2, 2011, a total of 1,934 and 2,011 stock options, respectively, were exercised, and 2,103 and 1,088 restricted stock and restricted stock units vested, respectively. These restricted stock and/or restricted stock units for the thirteen weeks ended June 30, 2012 and July 2, 2011 included 343 and 5 shares, respectively, and for the twenty-six weeks ended June 30, 2012 and July 2, 2011 included 1,495 and 133 shares, respectively, issued based on performance-based grants previously approved by the Board of Directors. During the twenty-six weeks ended July 2, 2011, the Board of Directors determined that the performance measures for certain performance-based grants were not met, resulting in the cancellation of 772 shares.

Note 5 Derivative Financial Instruments

The notional amounts and fair values of derivative instruments in our consolidated balance sheet were as follows:

	Notional Amounts (1)		Fair Value	
	June 30, 2012	December 31, 2011	June 30, 2012	December 31, 2011
Derivatives designated as hedging instruments recorded in:				
Other current assets				
Foreign exchange contracts	$ 13,037	$	$ 404	$
Accrued expenses				
Foreign exchange contracts	12,625		(323)	
	25,662		81	
Derivatives not receiving hedge accounting treatment recorded in:				
Other current assets				
Foreign exchange contracts	431,814	552,677	3,684	10,689
Accrued expenses				
Foreign exchange contracts	671,701	574,018	(4,986)	(3,976)
	1,103,515	1,126,695	(1,302)	6,713
Total	$ 1,129,177	$ 1,126,695	$ (1,221)	$ 6,713

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

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INGRAM MICRO INC.

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(In 000s, except per share data)

(Unaudited)

The amount recognized in earnings from our derivative instruments, including ineffectiveness, was a net gain (loss) of $12,410 and $(10,858) for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and $(8,108) and $(40,955) for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively, which was largely offset by the change in the fair value of the underlying hedged assets or liabilities. The gains or losses on derivative instruments are classified in our consolidated statement of income on a consistent basis with the classification of the change in fair value of the underlying hedged assets or liabilities. The unrealized gains (losses) associated with our cash flow hedging transactions, net of taxes, are reflected in our consolidated statement of comprehensive income for the thirteen and twenty-six weeks ended June 30, 2012 and July 2, 2011.

Cash Flow and Other Hedges

Our designated hedges have consisted of foreign currency forward contracts to hedge certain foreign currency-denominated intercompany management fees and an interest rate swap to hedge variable interest rates on a portion of our senior unsecured term loan, which we terminated upon repaying the underlying loan in September 2011. There were no such designated hedges outstanding as of December 31, 2011. We also use foreign currency forward contracts that are not designated as hedges primarily to manage currency risk associated with foreign currency-denominated trade accounts receivable, accounts payable and intercompany loans.

Note 6 Fair Value Measurements

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

At June 30, 2012 and December 31, 2011, our assets and liabilities measured at fair value on a recurring basis included cash equivalents, consisting primarily of money market accounts and short-term certificates of deposit, of $591,295 and $399,420, respectively, and marketable trading securities (included in other currents assets in our consolidated balance sheet) of $45,961 and $44,498, respectively, both determined based on Level 1 criteria, as defined above, and derivative assets of $4,088 and $10,689, respectively, and derivative liabilities of $5,309 and $3,976, respectively, determined based on Level 2 criteria. The change in the fair value of all derivative instruments was a net unrealized gain of $659 and $7,711 for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and a net unrealized gain (loss) of $(7,934) and $10,059 for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively. The fair value of the cash equivalents approximated cost and the gain or loss on the marketable trading securities was recognized in the consolidated statement of income to reflect these investments at fair value.

Note 7 Acquisitions and Intangible Assets

During the first quarter of 2011, we acquired the assets and liabilities of Aretê Sistemas S.A. (Aretê) in Spain, which further strengthened our capabilities in value-added distribution in our European region. Our agreement with Aretê called for an initial cash payment of $1,066, a hold-back amount of $1,040, which was released during the second quarter of 2011 upon settlement of certain closing matters, and a maximum potential earn-out of $5,000 to be paid out over four years through December 31, 2014 based upon the achievement of certain pre-defined targets. We recorded the earn-out amount of $2,062 through the purchase accounting for Aretê, which reflects the estimated fair value of the payout to be achieved. The aggregate purchase price of $4,168 has been allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction dates, including identifiable intangible assets of $4,142, primarily related to vendor and customer relationships with estimated useful lives of 10 years. This acquisition was not material to us as a whole and therefore, pro-forma financial information has not been presented.

INGRAM MICRO INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In 000s, except per share data)

(Unaudited)

During the first six months of 2012, we paid one of the annual earn-out payments related to a prior period acquisition totaling $338, which was previously accrued at the time of the acquisition.

On July 2, 2012, we announced the signing of a definitive agreement to acquire BrightPoint, Inc. (BrightPoint), a global leader in providing device lifecycle services to the wireless industry, for approximately $840,000, including the assumption of approximately $190,000 of debt, net of cash, as of June 30, 2012. Completion of the acquisition is conditioned upon (i) the receipt of antitrust approvals or the expiration or early termination of waiting periods, as applicable, in the United States, the European Union and certain other jurisdictions, (ii) approval of the merger agreement by the holders of a majority of the outstanding shares of BrightPoint s common stock and (iii) other customary closing conditions. We currently expect the acquisition to close by the end of 2012. Associated primarily with BrightPoint, we incurred acquisition-related costs of $4,045 during the quarter ended June 30, 2012. These costs are recorded in selling, general and administrative (SG&A) expenses in the accompanying consolidated statement of income.

The gross carrying amounts of finite-lived identifiable intangible assets of $183,358 and $183,557 at June 30, 2012 and December 31, 2011, respectively, are amortized over their remaining estimated lives ranging up to 16 years. The net carrying amount was $67,521 and $73,330 at June 30, 2012 and December 31, 2011, respectively. Amortization expense was $2,706 and $3,250 for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and $5,631 and $6,455 for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively.

Note 8 Reorganization and Expense-Reduction Program Costs

During the first half of 2012, we implemented headcount reductions primarily to better align the operating expenses of our Australian operations in Asia-Pacific with its lower sales volumes. Additionally, we moved certain transactions-oriented service and support functions to shared service centers in Asia-Pacific and Europe. We also closed our in-country Argentina operations in Latin America and will service this market through our export operations in Miami. Associated with these actions, during the thirteen and twenty-six weeks ended June 30, 2012, we incurred reorganization costs of $974 and $1,666, respectively, related to employee termination benefits for workforce reductions for 24 and 103 employees, respectively. The employee termination benefits for workforce reductions by region in the respective thirteen and twenty-six week period ended June 30, 2012 were $102 and $538 in Asia-Pacific, $663 and $663 in Europe, $207 and $431 in Latin America, and $2 and $34 in North America for 2 and 68 employees in Asia-Pacific, 12 and 12 employees in Europe, 9 and 19 employees in Latin America, and 1 and 4 employees in North America. At June 30, 2012, remaining liabilities associated with these actions totaled $854, which we expect to be substantially utilized by the end of 2012.

During the quarter ended June 30, 2012, we also recorded a charge for asset impairments of $1,923 associated with the closure of our in-country Argentina operations. This charge is included in SG&A expenses in the accompanying consolidated statement of income.

In the second half of 2011, we implemented a cost-reduction program related to our Australian operations in Asia-Pacific primarily to align our level of operating expenses with declines in sales volume as a result of the system-implementation complications and loss of market share in that country. We also implemented headcount reductions in certain operations in North America, Europe and Latin America. The remaining liabilities and 2012 activities associated with these actions are summarized in the table below for the twenty-six weeks ended June 30, 2012:

	Remaining Liability at December 31, 2011	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at June 30, 2012
Employee termination benefits	$ 2,948	$ (2,522)	$ (137)	$ 289

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INGRAM MICRO INC.

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(In 000s, except per share data)

(Unaudited)

Adjustments reflected in the table above include a reduction of $115 and $56 to reorganization liabilities recorded in prior years in Asia-Pacific and North America, respectively, for lower than expected employee termination benefits, as well as the net foreign currency impact that increased the U.S. dollar liability by $34. We expect the remaining liabilities to be substantially utilized by the end of 2012.

In 2009 and earlier, we incurred costs to integrate past acquisitions, as well as launching various other outsourcing and optimization plans, to improve operating efficiencies and better align our level of operating expenses with the decline in sales volumes resulting from the economic downturn in recent years. While these reorganization actions were completed prior to the periods included herein, future cash outlays are required for future lease payments related to exited facilities. The remaining liabilities and 2012 activities associated with these actions are summarized in the table below for the twenty-six weeks ended June 30, 2012:

	Remaining Liability at December 31, 2011	Amounts Paid and Charged Against the Liability	Adjustments	Remaining Liability at June 30, 2012
Facility costs	$ 8,280	$ (1,597)	$ (85)	$ 6,598

Adjustments reflected in the table above include a reduction of $99 to reorganization liabilities recorded in prior years in North America for lower than expected facility exit costs, as well as the net foreign currency impact that increased the U.S. dollar liability by $14.

In the first half of 2011, we recorded a credit of $269 to reorganization liabilities recorded in prior years in Europe for lower than expected costs associated with facility consolidations.

Note 9 Debt

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

	June 30, 2012	December 31, 2011
Senior unsecured notes, 5.25% due 2017	$ 300,000	$ 300,000
Asia-Pacific revolving trade accounts receivable-backed financing program	20,470	
Lines of credit and other debt	143,437	92,428
	463,907	392,428
Short-term debt and current maturities of long-term debt	(143,437)	(92,428)
	$ 320,470	$ 300,000

On June 29, 2012, we obtained a commitment for a $300,000 senior unsecured bridge term loan facility to be provided by a syndicate of banks to support our pending acquisition of BrightPoint (see Note 7). The interest rate on this facility is based on LIBOR, plus a predetermined margin that is based on our debt ratings. The facility matures 364 days following the closing of the acquisition. This facility contains a mandatory prepayment provision subsequent to sale of certain assets, or a debt or an equity issuance, as defined in the agreement. There were no drawings under this facility at June 30, 2012.

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INGRAM MICRO INC.

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(In 000s, except per share data)

(Unaudited)

Note 10 Income Taxes

Our effective tax rate for the thirteen weeks ended June 30, 2012 was 26.6% compared to 28.7% for the thirteen weeks ended July 2, 2011. For the twenty-six weeks ended June 30, 2012 and July 2, 2011, our effective tax rate was 12.1% and 29.8%, respectively. Under U.S. accounting rules for income taxes, quarterly effective tax rates may vary significantly depending on the actual operating results in the various tax jurisdictions, as well as changes in the valuation allowance related to the expected recovery of our deferred tax assets and changes in the assessment of or resolution of uncertain tax positions. The effective tax rate for the thirteen weeks ended June 30, 2012 included net discrete benefits of approximately $4,400, or 5.3 percentage points, which primarily reflects the release of an unrecognized tax benefit due to the expiration of the applicable statute of limitations in Australia, along with other positive adjustments agreed with the U.S. Internal Revenue Service (IRS) during the quarter, as we move into the final stages of concluding the audit of tax years 2007 to 2009, as discussed further below. The remaining year-over-year increase in our effective tax rate reflects the change in mix of profit among different tax jurisdictions and losses in other tax jurisdictions in which we are not able to record a tax benefit.

For the twenty-six weeks ended June 30, 2012, the approximate $4,400 of discrete tax benefits discussed above represents 2.6 percentage points of the effective tax rate. The twenty-six weeks ended June 30, 2012 also included net discrete tax benefits of approximately $28,500 or 16.6 percentage points of the effective tax rate, which was primarily the result of the write-off of the historical tax basis of the investment we have maintained in one of our Latin American subsidiary holding companies, realized during the first thirteen weeks of the year.

Our effective tax rate differed from the U.S. federal statutory rate of 35% during these periods primarily due to the discrete items noted above as well as the relative mix of earnings or losses within the tax jurisdictions in which we operate, such as: a) earnings in lower-tax jurisdictions for which no U.S. taxes have been provided because such earnings are planned to be reinvested indefinitely outside the U.S.; and b) changes in the valuation allowance on deferred tax assets.

At June 30, 2012, our deferred tax assets totaled $361,075 ($174,659 net of valuation allowances), approximately 45% of which related to net operating loss carryforwards. In our Australian operation, we had deferred tax assets of $33,324 at June 30, 2012. This included net operating loss carryforwards of $26,226, generated since the beginning of 2011 for that entity, which are allowed to be carried forward indefinitely to offset future taxable income under Australian law. As of June 30, 2012, we believe it is more likely than not that all of our Australian deferred tax assets will be realized. We monitor all of our other deferred tax assets for realizability in a similar manner and will record a valuation allowance if circumstances change and we believe the weight of objectively verifiable positive evidence no longer exceeds the negative evidence in each case.

At June 30, 2012, we had gross unrecognized tax benefits of $23,331 compared to $24,888 at December 31, 2011, representing a net decrease of $1,557 during the twenty-six weeks ended June 30, 2012. Substantially all of the gross unrecognized tax benefits, if recognized, would impact our effective tax rate in the period of recognition. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. In addition to the gross unrecognized tax benefits identified above, the interest and penalties recorded to date by us totaled $5,733 and $4,382 at June 30, 2012 and December 31, 2011, respectively.

Our future effective tax rate will continue to be affected by changes in the relative mix of taxable income and losses in the tax jurisdictions in which we operate, changes in the valuation of deferred tax assets, or changes in tax laws or interpretations thereof. In addition, our income tax returns are subject to continuous examination by the IRS and other tax authorities. In 2010, the IRS initiated an examination of tax years 2007 to 2009. As noted above, we agreed to certain IRS audit adjustments for all three years during the quarter, resulting in a discrete tax benefit for the quarter. As the statute of limitations has been extended for the periods 2007 to 2009, it is possible that the IRS may reopen audits for these periods. It is also possible that, within the next twelve months, ongoing tax examinations in the U.S. states and several of our foreign jurisdictions may be resolved, that new tax examinations may commence, and that other issues may be effectively settled. Our foreign subsidiaries are subject to periodic examination for statutory periods ranging from three to five years. We do not, however, expect our assessment of unrecognized tax benefits to change significantly over the next twelve months.

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(In 000s, except per share data)

(Unaudited)

Note 11 Segment Information

We operate predominantly in a single industry segment as a distributor of IT products and supply chain solutions. Our operating segments are based on geographic location, and the measure of segment profit is income from operations. We do not allocate stock-based compensation recognized (see Note 4) to our operating units; therefore, we are reporting this as a separate amount.

Geographic areas in which we operate currently include North America (United States and Canada), Europe (Austria, Belgium, France, Germany, Hungary, Italy, the Netherlands, Spain, Sweden, Switzerland, and the United Kingdom), Asia-Pacific (Australia, the People s Republic of China including Hong Kong, India, Indonesia, Malaysia, New Zealand, Singapore, and Thailand), and Latin America (Brazil, Chile, Mexico, Peru and our Latin American export operations in Miami). During the first half of 2012, we closed our in-country Argentina operations in Latin America.

Financial information by geographic segment is as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales:				
North America	$ 3,837,244	$ 3,760,429	$ 7,444,191	$ 7,266,862
Europe	2,460,141	2,640,120	5,107,197	5,516,354
Asia-Pacific	2,038,112	1,961,844	3,987,864	3,895,840
Latin America	442,398	386,632	874,024	793,681
Total	$ 8,777,895	$ 8,749,025	$ 17,413,276	$ 17,472,737
Income from operations:				
North America	$ 68,729	$ 67,589	$ 138,377	$ 126,736
Europe	14,913	16,914	36,914	48,997
Asia-Pacific	14,835	16,496	29,255	24,710
Latin America	4,437	6,480	11,865	12,747
Stock-based compensation expense	(5,129)	(10,331)	(14,575)	(15,988)
Total	$ 97,785	$ 97,148	$ 201,836	$ 197,202
Capital expenditures:				
North America	$ 16,760	$ 25,288	$ 32,058	$ 52,779
Europe	1,057	1,061	1,815	2,058
Asia-Pacific	2,615	1,615	11,171	5,935
Latin America	313	82	461	149
Total	$ 20,745	$ 28,046	$ 45,505	$ 60,921

Depreciation and amortization:				
North America	$ 8,018	$ 8,374	$ 16,734	$ 16,533
Europe	3,074	3,449	6,215	6,801
Asia-Pacific	2,189	1,759	4,203	3,471
Latin America	532	661	1,080	1,362
Total	$ 13,813	$ 14,243	$ 28,232	$ 28,167

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	As of June 30, 2012	As of December 31, 2011
Identifiable assets:		
North America	$ 3,869,611	$ 3,922,713
Europe	2,586,625	3,066,825
Asia-Pacific	1,811,156	1,640,771
Latin America	485,449	516,207
Total	$ 8,752,841	$ 9,146,516
Long-lived assets:		
North America	$ 305,328	$ 290,075
Europe	53,690	59,143
Asia-Pacific	42,968	36,760
Latin America	9,822	10,613
Total	$ 411,808	$ 396,591

Net sales for the United States, which is our country of domicile, were $3,504,273 and $3,339,055 for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and $6,642,722 and $6,348,967 for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively. Long-lived assets located in the United States were $303,857 and $288,730 as of June 30, 2012 and December 31, 2011, respectively.

Note 12 Commitments and Contingencies

Our Brazilian subsidiary has received a number of tax assessments including: (1) a 2003 Federal import tax assessment claiming certain commercial taxes totaling Brazilian Reais 12,714 ($6,290 at June 30, 2012 exchange rates) were due on the import of software acquired from international vendors for the period January through September of 2002; (2) a 2007 Sao Paulo Municipal tax assessment claiming Brazilian Reais 29,111 ($14,359 at June 30, 2012 exchange rates) of service taxes were due on the resale of software covering years 2002 through 2006, plus Brazilian Reais 25,972 ($12,810 at June 30, 2012 exchange rates) of associated penalties; and (3) a 2011 Federal income tax assessment, a portion of which claims statutory penalties totaling Brazilian Reais 15,900 ($7,866 at June 30, 2012 exchange rates) for delays in providing certain electronic files during the audit of tax years 2008 and 2009, which was conducted through the course of 2011. After working with our advisor, we believe the matters raised in the various assessments, other than those noted above, represent a remote risk of loss.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

In addition to the amounts assessed, it is possible that we could also be assessed up to Brazilian Reais 26,711 ($13,214 at June 30, 2012 exchange rates) for penalties and interest on the 2003 assessment and up to Brazilian Reais 110,711 ($54,607 at June 30, 2012 exchange rates) for interest and inflationary adjustments on the 2007 assessment. After working with our advisors on these matters, we believe we have good defenses against each matter and do not believe it is probable that we will suffer a material loss for amounts in the 2007 and the 2011 assessments or any other unassessed amounts noted above. While we will continue to vigorously pursue administrative and, if applicable, judicial action in defending against the 2003 Federal import tax assessment, we continue to maintain a reserve for the principal amount assessed at June 30, 2012.

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

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

Note 13 New Accounting Standards

In December 2011, the Financial Accounting Standards Board (FASB) issued a new accounting standard related to enhanced disclosures on offsetting (netting) of assets and liabilities in the financial statements. This standard requires improved information about financial instruments and derivative instruments that are either allowed to be offset in accordance with another accounting standard or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with another accounting standard. Under this standard, financial statements should disclose the gross amounts of those recognized assets and liabilities and the amounts offset, whether permitted by another accounting standard or subject to master netting arrangement, to determine the net amounts presented in the statement of financial position. This standard is effective for us beginning December 30, 2012 (the first day of fiscal 2013) and must be applied retrospectively for all comparative periods presented. We are currently in the process of assessing what impact this standard may have on our consolidated financial position or cash flows.

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

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

The following discussion contains forward-looking statements, including, but not limited to, management s expectations of competition; market share; revenues, margin, expenses and other operating results and ratios; economic conditions; vendor terms and conditions; deployment of enterprise systems; process and efficiency enhancements; cost-savings; cash flows; inventory levels; working capital days; capital expenditures; liquidity; capital requirements; acquisitions and integration and other related costs; operating models; exchange rate fluctuations and related currency gains or losses; resolution of contingencies; seasonality; interest rates and expenses; and rates of return. In evaluating our business, readers should carefully consider the important factors included in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission.

Additionally, in connection with the pending BrightPoint, Inc. (BrightPoint) acquisition discussed below, important risk factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, without limitation: our ability to timely complete the transaction, if at all; our ability to complete the transaction considering the various closing conditions, including those conditions related to regulatory approvals and shareholder approvals; our financial performance and BrightPoint s through the completion of the merger; BrightPoint s business may not perform as expected due to transaction-related uncertainty or other factors; management s ability to execute its plans, growth of the mobility industry, strategies and objectives for future operations, including the execution of integration plans; our ability to maintain access to adequate levels of capital at reasonable rates; the risk of litigation or claims associated with the proposed or completed acquisition; and our ability to achieve the expected benefits and manage the expected costs of the transaction.

We disclaim any duty to update any forward-looking statements.

Overview of Our Business

We are the largest wholesale distributor of information technology, or IT, products and supply chain solutions worldwide based on revenues. We offer a broad range of IT products and supply chain solutions and help generate demand and create efficiencies for our customers and suppliers around the world. Our results of operations have been, and will continue to be, directly affected by the conditions in the economy in general. The IT distribution industry in which we operate is characterized by narrow gross profit as a percentage of net sales, or gross margin, and narrow income from operations as a percentage of net sales, or operating margin. Historically, our margins have also been impacted by pressures from price competition and declining average selling prices, as well as changes in vendor terms and conditions, including, but not limited to, variations in vendor rebates and incentives, our ability to return inventory to vendors, and time periods qualifying for price protection. We expect competitive pricing pressures and restrictive vendor terms and conditions to continue in the foreseeable future. In addition, our margins have been and may continue to be impacted by our inventory levels, which are based on projections of future demand, product availability, product acceptance and marketability, and market conditions. Any sudden decline in demand and/or rapid technological changes in products could cause us to have a charge for excess and/or obsolete inventory. To mitigate these factors, we have implemented changes to and continue to refine our pricing strategies, inventory management processes and vendor program processes. In addition, we continuously monitor and work to change, as appropriate, certain terms, conditions and credit offered to our customers to reflect those being imposed by our vendors, to recover costs and/or to facilitate sales opportunities. We have also strived to improve our profitability through diversification of product offerings, including our presence in specialty product categories, such as automatic identification/data capture and point-of-sale, or AIDC/POS, enterprise computing, cloud computing, consumer electronics and fee-for-service logistics offerings. Our business also requires significant levels of working capital primarily to finance trade accounts receivable and inventory. We have historically relied, and continue to rely heavily, on trade credit from vendors, available cash, debt and factoring of trade accounts receivable for our working capital needs.

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Management s Discussion and Analysis Continued

We have complemented our internal growth initiatives with strategic business acquisitions. We have expanded our value-added distribution of mobile data and AIDC/POS solutions over the past few years through acquisitions of the distribution businesses of Eurequat SA, Intertrade A.F. AG, Paradigm Distribution Ltd. and Symtech Nordic AS in Europe, and Vantex Technology Distribution Limited and the Cantechs Group in Asia-Pacific. We have also expanded our presence in the mid-range enterprise market through the acquisitions of Computacenter Distribution, Albora Soluciones SL, interAct BVBA and Aretê Sistemas S.A., or Aretê, in Europe, and Value Added Distributors Limited and Asiasoft Hong Kong Limited in Asia-Pacific.

In July 2012, we announced that we had signed a definitive agreement to acquire BrightPoint, Inc. (BrightPoint), a global leader in providing device lifecycle services to the wireless industry. We believe, this acquisition will greatly enhance our global position in mobility as well as our fee-for-service logistics offerings. We expect to realize annual cost synergies and efficiencies in excess of $55,000 by 2014, and the transaction is expected to be accretive to earnings per share by $0.18 per diluted share in 2013 and $0.35 per diluted share in 2014, excluding one-time charges and integration costs. Completion of the acquisition is conditioned upon (i) the receipt of antitrust approvals or the expiration or early termination of waiting periods, as applicable, in the United States, the European Union and certain other jurisdictions, (ii) approval of the merger agreement by the holders of a majority of the outstanding shares of BrightPoint s common stock and (iii) other customary closing conditions. We currently expect the acquisition to close by the end of 2012.

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

We are currently in the process of migrating our operations from our legacy proprietary system that was developed in the late-1980s to SAP systems in a phased, country-by-country approach over the next several years. We completed our first deployment in Singapore in 2009. In the period since, we have deployed SAP in New Zealand, Indonesia, Malaysia, Chile, Belgium and the Netherlands, and have also deployed the SAP financial modules in North America. In February 2011, we also deployed the new system in Australia, one of our largest operations. This deployment was somewhat unique in that Australia operated on a different legacy enterprise system than all of our other operations and had recently implemented Ingram Micro s warehouse management system, designed for our largest, most sophisticated distribution centers. Australia was the first country with this warehouse management system to deploy SAP. These features made the Australian conversion more complex than those we had previously undertaken in other countries. Connectivity between the new system and those of our warehouse and partners, and the ramp-up of effective order processing, did not run as we planned. In addition, the customer experience with the new system is not as robust as what we were providing with our legacy systems. As a result of these challenges, our sales and profitability in Australia were significantly negatively impacted. We believe we have addressed the customer-service and order management functionality of the new system and are currently deploying these upgrades to better meet our customers needs. The pace of recovery of revenues and profitability in Australia remained subdued in the first half of 2012, and we expect the year-over-year improvement to be somewhat tempered at least through the majority of 2012 as we continue the improvement efforts noted above while also implementing more aggressive marketing and pricing strategies to try to address the share loss since the system implementation. We have adjusted our system deployment schedule to allow for the deployment of the enhanced customer functionality. However, we can make no assurances that we will not have disruptions, delays and/or negative business impacts from forthcoming deployments.

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Management s Discussion and Analysis Continued

Operations

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 thirteen week periods indicated:

	Thirteen Weeks Ended				Twenty-six Weeks Ended			
	June 30, 2012		July 2, 2011		June 30, 2012		July 2, 2011	
Net sales by geographic region:								
North America	$ 3,837,244	43.7%	$ 3,760,429	43.0%	$ 7,444,191	42.8%	$ 7,266,862	41.6%
Europe	2,460,141	28.0	2,640,120	30.2	5,107,197	29.3	5,516,354	31.6
Asia-Pacific	2,038,112	23.2	1,961,844	22.4	3,987,864	22.9	3,895,840	22.3
Latin America	442,398	5.0	386,632	4.4	874,024	5.0	793,681	4.5
Total	$ 8,777,895	100.0%	$ 8,749,025	100.0%	$ 17,413,276	100.0%	$ 17,472,737	100.0%

	Thirteen Weeks Ended				Twenty-six Weeks Ended			
	June 30, 2012		July 2, 2011		June 30, 2012		July 2, 2011	
Operating income and operating margin by geographic region:								
North America	$ 68,729	1.79%	$ 67,589	1.80%	$ 138,377	1.86%	$ 126,736	1.74%
Europe	14,913	0.61	16,914	0.64	36,914	0.72	48,997	0.89
Asia-Pacific	14,835	0.73	16,496	0.84	29,255	0.73	24,710	0.63
Latin America	4,437	1.00	6,480	1.68	11,865	1.36	12,747	1.61
Stock-based compensation expense	(5,129)		(10,331)		(14,575)		(15,988)	
Total	$ 97,785	1.11%	$ 97,148	1.11%	$ 201,836	1.16%	$ 197,202	1.13%

We sell finished products purchased from many vendors but generated approximately 20% and 23% of our consolidated net sales for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively, from products purchased from Hewlett-Packard Company and 10% for each of the twenty-six weeks ended June 30, 2012 and July 2, 2011 from products purchased from Cisco Systems, Inc. There were no other vendors or any customers that represented 10% or more of our consolidated net sales in either of the periods presented.

The following table sets forth certain items from our consolidated statement of income as a percentage of net sales, for each of the periods indicated (percentages below may not total due to rounding).

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Net sales	100.00%	100.00%	100.00%	100.00%
Cost of sales	94.84	94.75	94.72	94.77

Gross profit	5.16	5.25	5.28	5.23
Operating expenses:				
Selling, general and administrative	4.03	4.14	4.12	4.10
Reorganization costs (credits)	0.01		0.01	(0.00)
Income from operations	1.11	1.11	1.16	1.13
Other expense, net	0.16	0.15	0.17	0.18
Income before income taxes	0.95	0.96	0.99	0.95
Provision for income taxes	0.25	0.27	0.12	0.28
Net income	0.70%	0.68%	0.87%	0.66%

Management s Discussion and Analysis Continued

Results of Operations for the Thirteen Weeks Ended June 30, 2012 Compared to the

Thirteen Weeks Ended July 2, 2011

Our consolidated net sales increased 0.3% to $8,777,895 for the thirteen weeks ended June 30, 2012, or second quarter of 2012, from $8,749,025 for the thirteen weeks ended July 2, 2011, or second quarter of 2011. Net sales from our North American, Asia-Pacific and Latin American operations increased by 2.0%, 3.9% and 14.4%, respectively, in the second quarter of 2012 compared to the second quarter of 2011. In our European operations, net sales declined by 6.8% in the second quarter of 2012 compared to the prior year quarter. The translation impacts of weaker European, Asia-Pacific and Latin American currencies relative to the U.S. dollar had negative impacts of approximately 10, 5 and 12 percentage points in the respective regions net sales with a combined negative effect of approximately 5 percentage points on our consolidated net sales. The year-over-year increase in our North American net sales was driven in part by strong growth in our specialty business units, as well as solid growth in our U.S. traditional distribution business, offset partially by a decline in our Canadian business as incremental revenue from a vendor s new product launch in the prior year quarter did not recur this year. The year-over-year decrease in our European net sales was primarily attributable to the translation impacts of European currencies, as discussed above. Our European net sales increased in local currency, led by strong double digit growth in Germany and the United Kingdom, which helped offset continued relative weakness in the Southern European and Benelux countries. During the second quarter of 2012, we also experienced generally solid performance in the small- and medium-sized business market throughout most of Europe, and from the e-tail and retail customer segments in certain European countries. In Asia-Pacific, we had strong growth in our China and India operations, but our net sales continued to be negatively affected by soft markets and slow progress in regaining market share lost during our system deployment in Australia in February of 2011, which negatively affected the consolidated and region s revenue growth by one and seven percentage points, respectively. The year-over-year increase in our Latin American net sales was primarily due to robust demand in most countries in which we operate.

Gross margin decreased nine basis points to 5.16% in the second quarter of 2012 from 5.25% in the second quarter of 2011. The decrease year-over-year is primarily attributable to a greater mix of high volume, lower gross margin sales. Gross margin was also impacted by a highly competitive selling environment in many countries and a greater mix of sales into the e-tail and retail segments in international markets, which is generally a lower gross margin business. We continuously evaluate and modify our pricing policies and certain terms, conditions and credit offered to our customers on a transaction-by-transaction basis to reflect general market conditions, available vendor support and strategic opportunities to grow market share and to optimize our profitability and return on capital. These modifications may result in some volatility in our gross margin. Increased competition or any weakening of economies throughout the world may hinder our ability to maintain and/or improve gross margins from the levels realized in recent periods.

Total selling, general and administrative expenses, or SG&A expenses, decreased $7,978, or 2.2%, in the second quarter of 2012 compared to the second quarter of 2011, and decreased 11 basis points, as a percentage of consolidated net sales, to 4.03% in the second quarter of 2012 from 4.14% in the second quarter of 2011. The year-over-year decrease in SG&A expenses was primarily attributable to the translation impacts of foreign currencies, which yielded an approximate $14,000 reduction year-over-year, our continued cost control management and a decrease in stock-based compensation expense of $5,202 associated with our long-term incentive plans primarily due to the timing of current year grants. These factors were partially offset by acquisition-related costs of $4,045 related primarily to the pending acquisition of BrightPoint and a charge of $1,923 associated with asset impairments resulting from the closure of our in-country Argentina operations. We also have continued to invest through the first half of 2012 in strategic growth initiatives and system and process improvements.

During the second quarter of 2012, we incurred net reorganization costs of $839 primarily related to employee termination benefits for workforce reductions primarily in Europe ($663), Asia-Pacific ($122) and Latin America ($207), partially offset by net reorganization credits in North America ($153) to reflect lower than expected costs associated with facility consolidations recorded in prior periods (see Note 8 to consolidated financial statements). We did not incur reorganization costs during the second quarter of 2011.

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Management s Discussion and Analysis Continued

Operating margin was 1.11% in both the second quarter of 2012 and 2011. Our flat consolidated operating margin primarily reflects the decrease in our gross margin, offset by the lower SG&A expenses as a percentage of consolidated net sales, as discussed above. Our consolidated results for the second quarter of 2012 also include a total of approximately seven basis points associated with acquisition-related costs and charges related to our closure of Argentina in-country operations, as also discussed above. Our North American operating margin decreased to 1.79% in the second quarter of 2012 from 1.80% in the second quarter of 2011. However, our North American operating margin included the aforementioned acquisition-related costs, which negatively impacted the region s operating margin by 11 basis points in the second quarter of 2012. Our European operating margin decreased to 0.61% in the second quarter of 2012 from 0.64% in the second quarter of 2011. The year-over-year decline in our European operating margin reflects the impact of continued macro-economic challenges throughout the region, which led to a heightened competitive selling environment and a higher ratio of revenue mix in lower margin customer segments. Our Asia-Pacific operating margin decreased to 0.73% in the second quarter of 2012 from 0.84% in the second quarter of 2011. The year-over-year decrease in our Asia-Pacific operating margin is primarily due to the region s sales mix, which was influenced by strong sales of lower margin products. While Australia continues to experience modest improvements compared to prior year quarter, the overall economic situation in the country is challenging and the selling environment remained highly competitive during the quarter. Australia negatively impacted the region s and consolidated operating profitability by 68 and 15 basis points, respectively, in the second quarter of 2012 compared to negative impacts of 92 and 18 basis points, respectively, in the second quarter of 2011. Our Latin American operating margin decreased to 1.00% in the second quarter of 2012 from 1.68% in the second quarter of 2011. The year-over-year decrease is primarily attributable to charges associated with our closure of Argentina in-country operations, which negatively impacted the region s operating margin by 48 basis points. The region was also impacted by a greater proportion of higher volume, lower margin sales. We continuously evaluate and may implement further process improvements and other changes in order to enhance profitability over the long-term. Such changes, if any, along with normal seasonal variations in net sales, may cause operating margins to fluctuate from quarter to quarter.

Other expense, net, consisted primarily of interest expense and income, foreign currency exchange losses and other non-operating gains and losses. We incurred other expenses of $14,327 in the second quarter of 2012 compared to $13,326 in the second quarter of 2011. The year-over-year increase is primarily attributable to net foreign-currency losses of $1,794 in the second quarter of 2012 primarily from hedging and other currency losses in certain of our Asia-Pacific and Latin American operations compared to net foreign-currency gains of $2,974 in the second quarter of 2011. Each quarter benefited by approximately $1,600 and $2,600, respectively, from foreign exchange gains related to the translation impact on Euro-based inventory purchases in our pan-European purchasing entity, which designates the U.S. dollar as its functional currency. These foreign currency impacts are partially offset by a year-over-year decrease in net interest expense as a result of the repayment of our senior unsecured term loan in September 2011 and the resulting overall reduction in average debt outstanding in the current quarter.

The provision for income taxes was $22,184, or an effective tax rate of 26.6%, in the second quarter of 2012 compared to $24,091, or an effective tax rate of 28.7%, in the second quarter of 2011. The year-over-year change in the effective tax rate primarily reflects discrete tax benefits totaling approximately $4,400 or 5.3 percentage points recognized in the quarter as a result of the lapse of the statute of limitations and its impact on a tax-related reserve in Australia and positive adjustments resulting from the resolution of portions of the Internal Revenue Service audit in the U.S., as well as the change in mix of profit among different tax jurisdictions and losses in other tax jurisdictions in which we are not able to record a tax benefit. Under U.S. accounting rules for income taxes, quarterly effective tax rates may vary significantly depending on the actual operating results in the various tax jurisdictions, as well as changes in the valuation allowance related to the expected recovery of our deferred tax assets.

Results of Operations for the Twenty-six Weeks Ended June 30, 2012 Compared to the

Twenty-six Weeks Ended July 2, 2011

Our consolidated net sales decreased 0.3% to $17,413,276 for the twenty-six weeks ended June 30, 2012, or first six months of 2012, from $17,472,737 for the twenty-six weeks ended July 2, 2011, or first six months of 2011. Net sales from our North American, Asia-Pacific and Latin American operations increased 2.4%, 2.4%, and 10.1%, respectively, in the first six months of 2012 compared to the first six months of 2011. In our European operations, net sales declined by 7.4% in the first six months of 2012 compared to the prior year period. The translation impacts of relatively weaker European, Asia-Pacific and Latin American currencies relative to the U.S. dollar had negative impacts of approximately 7, 2 and 9 percentage points of the year-over-year change in the respective region s net sales while the combined translation impacts of these foreign currencies had a negative effect of approximately three percentage points on our consolidated net sales. Beyond these currency impacts, the year-over-year change in our consolidated and regional net sales is attributable to the same factors discussed in the results for the second quarter of 2012 and 2011. Our acquisitions did not have a material impact in comparing our year-over-year regional and consolidated sales growth.

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Management s Discussion and Analysis Continued

Gross margin improved five basis points to 5.28% in the first six months of 2012 compared to 5.23% in the first six months of 2011. The increase year-over-year is primarily attributable to higher hard disk drive pricing in the first quarter of 2011, predominately in North America, and improved performance in our fee-for-service logistics business, partially offset by a greater mix of high volume, lower gross margin sales. Gross margin was also impacted by a highly competitive selling environment in many countries and a greater mix of sales into the e-tail and retail segments in international markets, which is generally lower margin business.

Total SG&A expenses increased $684 or 0.1% in the first six months of 2012 compared to the first six months of 2011. SG&A expenses as a percentage of consolidated net sales also increased by two basis points year-over-year. The higher SG&A expenses in the current year were primarily attributable to acquisition-related costs of $4,045, asset impairments of $1,923 associated with the closure of our in-country Argentina operations, costs of $2,500 associated with the transition of our chief executive officer and investments in strategic initiatives and system and process improvements. These factors were generally offset by the translation impacts of foreign currencies, which yielded an approximate $18,000 reduction year-over-year, a decrease in stock-based compensation expense of $1,413 associated with our long-term incentive plans and our continued cost control management. In addition, the first six months of 2011 SG&A expenses included a benefit of approximately $5,000 related to a reduction of certain bad debt reserves in North America based upon our estimates of collectibility and historical write-off experience.

During the first half of 2012, we incurred net reorganization costs of $1,396 consisting primarily of employee termination benefits for workforce reductions primarily in Europe ($663), Asia-Pacific ($423) and Latin America ($431), partially offset by net reorganization credits in North America ($121) to reflect lower than expected costs associated with facility consolidations recorded in prior periods (see Note 8 to consolidated financial statements). In the first six months of 2011, we recorded reorganization credits in Europe of $269 to reflect lower than expected costs associated with facility consolidations for which the initial charge was recorded in a prior period.

Operating margin increased to 1.16% in the first six months of 2012 from 1.13% in the first six months of 2011. The year-over-year increase in our operating margin is due primarily to improvement in gross margin, much of which was driven by first quarter hard disk drive pricing as previously discussed. Our consolidated results for the first six months of 2012 also include approximately five basis points in total incremental costs associated with acquisition-related activities and the transition of our chief executive officer, as well as charges related to our closure of Argentina in-country operations, while our consolidated results for the first six months of 2011 included a three basis points benefit related to the reduction of certain North American bad debt reserves. Our North American operating margin increased to 1.86% in the first six months of 2012 from 1.74% in the first six months of 2011. The year-over-year increase in our North American operating margin is driven primarily by stronger hard disk drive margins in the first quarter of 2012 as well as operating expense leverage on the region s sales growth, partially offset by approximately nine basis points associated with acquisition-related costs and costs associated with the transition of our chief executive officer, while the region s results for the first six months of 2011 included a benefit of approximately seven basis points related to the reduction of certain bad debts reserves. Our European operating margin decreased to 0.72% in the first six months of 2012 from 0.89% in the first six months of 2011, primarily driven by the continued challenging economic and competitive environment in that region. Our Asia-Pacific operating margin increased to 0.73% in the first six months of 2012 from 0.63% in the first six months of 2011. The year-over-year increase in our Asia-Pacific operating margin is a result of good cost control and operating leverage on our high volume of sales, offset partially by increased sales of lower margin products. Our Australian operations also improved relative to the prior year period, but continued to generate an operating loss, which negatively impacted the region s operating margin by 70 basis points in the first six months of 2012, compared to a 99 basis points impact in the first six months of 2011. Our Latin American operating margin decreased to 1.36% in the first six months of 2012 from 1.61% in the first six months of 2011, which largely reflects approximately 27 basis points of costs primarily associated with the closure of our Argentina in-county operations, as discussed above.

We incurred other expenses, net, of $29,788 in the first six months of 2012 compared to $31,975 in the first six months of 2011. The year-over-year decrease is primarily attributable to lower net interest expense resulting from the overall reduction in average debt outstanding in the first six months of 2012, offset partially by a $7,325 year-over-year increase in net losses on foreign currency exchange primarily from hedging and other currency losses in certain of our Asia-Pacific and Latin American operations and the foreign-currency translation impact on Euro-based inventory purchases in our pan-European entity, which designates the U.S. dollar as its functional currency.

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Management s Discussion and Analysis Continued

The provision for income taxes was $20,801, or an effective tax rate of 12.1%, in the first six months of 2012 compared to $49,186, or an effective tax rate of 29.8%, in the first six months of 2011. The first six months of 2012 included net discrete tax benefits of approximately $28,500, or 16.6 percentage points of the effective tax rate, which was primarily a result of the write-off of the historical tax basis of the investment we have maintained in one of our Latin American subsidiary holding companies, which was realized in the current period (see Note 10 to our consolidated financial statements), and the $4,400 or 2.6 percentage points of discrete benefits recognized in the second quarter of 2012, as previously discussed. The remaining year-over-year change in the effective tax rate is driven by factors consistent with our discussion of the results for the second quarters of 2012 and 2011.

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:

- the impact of and possible disruption caused by efforts to improve our IT capabilities, integrate acquisitions, including the pending acquisition of BrightPoint, or implement reorganization actions, as well as the related expenses and/or charges;
- 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;
- general changes in economic or geopolitical conditions, including changes in legislation or regulatory environments in which we operate;
- seasonal variations in the demand for our products and services, which historically have included 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 services in the fourth quarter, which affect our operating expenses and gross margins;
- changes in product mix, including entry or expansion into new markets, as well as the exit or retraction of certain business;
- 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;
- changes in the level of our operating expenses;
- changes in our provision for taxes due to the mix of taxable earnings and losses across our operations, including losses in certain tax jurisdictions in which we are not able to record a tax benefit, as well as the resolution of uncertain tax positions or changes in the valuation allowance related to the expected recovery of our deferred tax assets;

- the impact of acquisitions, including the pending acquisition of BrightPoint, and divestitures;

- the occurrence of unexpected events or the resolution of existing uncertainties, including, but not limited to, litigation, or regulatory matters;

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

- product supply constraints; and

- interest rate fluctuations and/or credit market volatility, which may increase our borrowing costs and may influence the willingness or ability of customers and end-users to purchase products and services.

Historical variations in our business may not be indicative of future trends. In addition, our narrow operating margins may magnify the impact of the foregoing factors on our operating results.

Liquidity and Capital Resources

Cash Flows

We finance our working capital needs and investments in the business largely through net income before noncash items, available cash, trade and supplier credit, and various financing facilities. As a distributor, our business requires significant investments in working capital, particularly trade accounts receivable and inventory, which is partially financed by vendor trade accounts payable. As a general rule, when sales volumes are increasing, our net investment in working capital dollars typically increases, which generally results in decreased cash flow generated from operating activities. Conversely, when sales volume decreases, our net investment in working capital decreases, which generally results in increases in cash flows generated from operating activities. The following is a detailed discussion of our cash flows.

Management s Discussion and Analysis Continued

Our cash and cash equivalents totaled $981,244 and $891,403 at June 30, 2012 and December 31, 2011, respectively. We normally have a seasonal decline in sales from the fourth quarter to the second. For example, this seasonal drop was more than 12% in the second quarter of 2012 compared to the fourth quarter of 2011. As noted above, this trend will typically yield a decrease in our net investment in working capital. While still within our normal range of 22 to 26 working capital days, our working capital days at the end of the second half of 2012 increased by three days from year-end 2011, primarily because of the impact of slower retail demand and other seasonal buildup of inventory levels, which essentially offset the impact of the decline in sales from the fourth quarter of 2011.

Operating activities provided net cash of $84,303 for the first six months of 2012 compared to $276,833 for the first six months of 2011. As noted above, our cash flows from operations are significantly affected by net working capital which is in turn impacted by fluctuations in volume of sales, as well as normal period-to-period variations in days of working capital outstanding due to the timing of collections from customers, movement of inventory and payments to vendors. The net cash provided by operating activities for the first six months of 2012 principally reflects our net income before noncash charges, and the working capital trends discussed above, most notably our collections of accounts receivable from the end of 2011, offset in part by payments of our accounts payable, higher investment in inventory and a decrease in our book overdraft balance (see Capital Resources for further discussion of this balance). Our cash flows from operations in the first six months of 2011 reflects many of these same trends. The higher level of inventory in the current year quarter compared to prior year quarter reflects our targeted stocking levels to facilitate typically higher second half seasonality, primarily in our North America, Asia-Pacific, and Latin American operations.

Investing activities used net cash of $44,718 for the first six months of 2012 compared to $63,998 in the first six months of 2011. The net cash used by investing activities was primarily driven by capital expenditures in both periods, with a higher level of capital expenditures in the previous year based on the timing of investments in our previously discussed enterprise system deployment, and some incremental investment in a new warehouse facility in our Asia-Pacific region in the first quarter of 2011.

Financing activities provided net cash of $58,066 while driving a net cash outflow of $31,217 in the first six months of 2012 and 2011, respectively. The net cash provided by financing activities in the first six months of 2012 primarily reflects the net proceeds of $74,193 on our revolving credit facilities used to fund our ongoing operations, including working capital investment as noted above, and proceeds from exercises of stock options of $28,632; partially offset by our repurchase of $50,000 of Class A Common Stock. The net cash used by financing activities in the prior year reflects the same general activities, although is driven by a higher level of stock repurchases and a lower level of proceeds from revolving credit facilities in the prior year.

Our levels of debt and cash and cash equivalents are highly influenced by our working capital needs. As such, our cash and cash equivalents balances and borrowings fluctuate from period-to-period and may also fluctuate significantly within a quarter. The fluctuation is the result of the concentration of payments received from customers toward the end of each month, as well as the timing of payments made to our vendors. Accordingly, our period-end debt and cash balances may not be reflective of our average levels or maximum debt and/or minimum cash levels during the periods presented or at any point in time.

Capital Resources

We have a range of financing facilities which are diversified by type, maturity and geographic region with various financial institutions worldwide with a total capacity of approximately $2,797,000, of which $463,907 was outstanding at June 30, 2012, and a commitment for a $300,000 senior unsecured bridge term loan facility. These facilities have staggered maturities through 2017. Our cash and cash equivalents totaled $981,244 and $891,403 at June 30, 2012 and December 31, 2011, respectively, of which $720,588 and $773,816, respectively, resided in operations outside of the U.S. Our ability to repatriate these funds to the U.S. in an economical manner may be limited. Our cash balances are deposited and/or invested with various financial institutions globally that we endeavor to monitor regularly for credit quality. However, we are exposed to risk of loss on funds deposited with the various financial institutions and money market mutual funds and we may experience significant disruptions in our liquidity needs if one or more of these financial institutions were to suffer bankruptcy or similar restructuring. As of June 30, 2012 and December 31, 2011, we had book overdrafts of $479,105 and $511,172, respectively, representing checks issued on disbursement bank accounts but not yet paid by such banks. These amounts are classified as accounts payable in our consolidated balance sheet and are typically paid by the banks in a relatively short period of time. We believe that our existing sources of liquidity provide sufficient resources to meet our capital requirements, including the potential need to post cash collateral for identified contingencies (see Note 12 to our consolidated financial statements and Item 1. Legal Proceedings under Part II. Other Information for further discussion of identified contingencies), for at least the next twelve months. Nevertheless, depending on capital and credit market conditions, we may from

Management s Discussion and Analysis Continued

time to time seek to increase our available capital resources through additional debt or other financing facilities. Finally, since the capital and credit markets can be volatile, we may be limited in our ability to replace in a timely manner maturing credit facilities and other indebtedness on terms acceptable to us, or at all, or to access committed capacities due to the inability of our finance partners to meet their commitments to us. The following is a detailed discussion of our various financing facilities.

We have $300,000 of 5.25% senior unsecured notes due 2017. Interest on the notes is payable semiannually in arrears on March 1 and September 1. We may redeem the notes in whole at any time or in part from time to time, at our option, at redemption prices that are designated in the terms and conditions of the notes.

We have a revolving trade accounts receivable-backed financing program in North America that matures in April 2014 and provides for up to $500,000 in borrowing capacity. This financing program may, subject to the financial institutions approval and availability of eligible receivables, be increased to $700,000 in accordance with the terms of the program. The interest rate of this program is dependent on designated commercial paper rates (or, in certain circumstances, an alternate rate) plus a predetermined margin. We had no borrowings at June 30, 2012 and December 31, 2011 under this North American financing program.

We have a revolving trade accounts receivable-backed financing program in Europe that matures in January 2014 and provides for a borrowing capacity of up to 100,000, or approximately $126,000 at June 30, 2012 exchange rates. The current program requires certain commitment fees, and borrowings under this program incur financing costs based on EURIBOR plus a predetermined margin. We had no borrowings at June 30, 2012 and December 31, 2011 under this European financing program.

We have two other revolving trade accounts receivable-backed financing programs in Europe, which mature in May 2013, and respectively provide for a maximum borrowing capacity of £60,000, or approximately $94,000, and 90,000, or approximately $114,000, at June 30, 2012 exchange rates. These programs require certain commitment fees, and borrowings under the programs incur financing costs, based on LIBOR and EURIBOR, respectively, plus a predetermined margin. We had no borrowings at June 30, 2012 and December 31, 2011 under these European financing programs.

We have a multi-currency revolving trade accounts receivable-backed financing program in Asia-Pacific that matures in May 2014 and provides for a borrowing capacity of up to 160,000 Australian dollars, or approximately $164,000 at June 30, 2012 exchange rates. The interest rate for this financing program 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 plus a predetermined margin. We had borrowings of $20,470 and $0 at June 30, 2012 and December 31, 2011, respectively, under this Asia-Pacific financing program.

Our ability to access financing under all our trade accounts receivable-backed financing programs in North America, Europe and Asia-Pacific, as discussed above, is dependent upon the level of eligible trade accounts receivable as well as continued covenant compliance. We may lose access to all or part of our financing under these programs under certain circumstances, including: (a) a reduction in sales volumes leading to related lower levels of eligible trade accounts receivable; (b) failure to meet certain defined eligibility criteria for the trade accounts receivable, such as receivables remaining assignable and free of liens and dispute or set-off rights; (c) performance of our trade accounts receivable; and/or (d) loss of credit insurance coverage for our European and Asia-Pacific facilities. At June 30, 2012, our actual aggregate capacity under these programs was approximately $928,000 based on eligible trade accounts receivable available, of which no amount of such capacity was used. Even if we do not borrow, or choose not to borrow to the full available capacity of certain programs, most of our trade accounts receivable-backed financing programs prohibit us from assigning, transferring or pledging the underlying eligible receivables as collateral for other financing programs. At June 30, 2012, the amount of trade accounts receivable which would be restricted in this regard totaled approximately $1,468,000.

We have a $750,000 revolving senior unsecured credit facility from a syndicate of multinational banks, which matures in September 2016. The interest rate on this facility is based on LIBOR, plus a predetermined margin that is based on our debt ratings and leverage ratio. We had no borrowings at June 30, 2012 and December 31, 2011 under this credit facility. This credit facility may also be used to issue letters of credit. At both June 30, 2012 and December 31, 2011, letters of credit of $4,700 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 agreement is reduced by the amount of any outstanding letters of credit.

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Management s Discussion and Analysis Continued

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 $749,000 at June 30, 2012. Most of these arrangements are on an uncommitted basis and are reviewed periodically for renewal. At June 30, 2012 and December 31, 2011, respectively, we had $143,437 and $92,428 outstanding under these facilities. The weighted average interest rate on the outstanding borrowings under these facilities, which may fluctuate depending on geographic mix, was 7.9% and 8.1% per annum at June 30, 2012 and December 31, 2011, respectively. At June 30, 2012 and December 31, 2011, letters of credit totaling $24,281 and $31,405, respectively, were issued to various customs agencies and landlords to support our subsidiaries. The issuance of these letters of credit reduces our available capacity under these agreements by the same amount.

On June 29, 2012, we obtained a commitment for a $300,000 senior unsecured bridge term loan facility to be provided by a syndicate of banks to support our pending acquisition of BrightPoint. The interest rate on this facility is based on LIBOR, plus a predetermined margin that is based on our debt ratings. The facility matures 364 days following the closing of the acquisition. This facility contains a mandatory prepayment provision subsequent to sale of certain assets, or a debt or an equity issuance, as defined in the agreement. The obligation of the banks to enter into the facility contemplated by the commitment is subject to the negotiation and execution of definitive documentation prior to March 31, 2013. There were no drawings under this facility at June 30, 2012.

There have been no significant changes in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 other than those noted in this Capital Resources section.

Covenant Compliance

We are required to comply with certain financial covenants under the terms of certain of our financing facilities, including restrictions on funded debt and liens and covenants related to tangible net worth, leverage and interest coverage ratios and trade accounts receivable portfolio performance including metrics related to receivables and payables. We are also restricted by other covenants, including, but not limited to, restrictions on the amount of additional indebtedness we can incur, dividends we can pay, and the amount of common stock that we can repurchase annually. At June 30, 2012, we were in compliance with all material covenants or other material requirements set forth in our trade accounts receivable-backed programs, senior unsecured notes due 2017 and other credit agreements, as discussed above.

Trade Accounts Receivable Factoring Programs

We have an uncommitted factoring program in North America under which trade accounts receivable of one large customer may be sold, without recourse, to a financial institution. The total amount of receivables factored under this program, at any point in time, cannot exceed $150,000. We also have an uncommitted factoring program in Europe under which trade accounts receivable of another large customer may be sold, without recourse, to a financial institution. The total amount of receivables factored under this program, at any point in time, cannot exceed 40,000, or approximately $51,000, at June 30, 2012 exchange rates. Available capacity under these programs is dependent on the amount of trade accounts receivable already sold to and held by the financial institutions, the level of our trade accounts receivable eligible to be sold into these programs and the financial institutions willingness to purchase such receivables. At June 30, 2012 and December 31, 2011, we had a total of $150,891 and $165,744, respectively, of trade accounts receivable sold to and held by the financial institutions under these programs.

Other Matters

See Note 12 to our consolidated financial statements and Item 1. Legal Proceedings under Part II Other Information for discussion of other matters.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in our quantitative and qualitative disclosures about market risk for the twenty-six weeks ended June 30, 2012 from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. For further discussion of quantitative and qualitative disclosures about market risk, reference is made to our Annual Report on Form 10-K for the year ended December 31, 2011.

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Management s Discussion and Analysis Continued

Item 4. Controls and Procedures

Our management evaluated, with the participation of the Chief Executive Officer and Chief Operating and Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Operating and Financial Officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

We are in the process of upgrading our computer systems used for operations in certain of our subsidiaries. Implementation of these systems has necessitated changes in operating policies and procedures and the related internal controls and their method of application. However, there have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Unless otherwise indicated, currency and share amounts in Part II are stated in thousands.

Item 1. Legal Proceedings

Our Brazilian subsidiary has received a number of tax assessments including: (1) a 2003 Federal import tax assessment claiming certain commercial taxes totaling Brazilian Reais 12,714 ($6,290 at June 30, 2012 exchange rates) were due on the import of software acquired from international vendors for the period January through September of 2002; (2) a 2007 Sao Paulo Municipal tax assessment claiming Brazilian Reais 29,111 ($14,359 at June 30, 2012 exchange rates) of service taxes were due on the resale of software covering years 2002 through 2006, plus Brazilian Reais 25,972 ($12,810 at June 30, 2012 exchange rates) of associated penalties; and (3) a 2011 Federal income tax assessment, a portion of which claims statutory penalties totaling Brazilian Reais 15,900 ($7,866 at June 30, 2012 exchange rates) for delays in providing certain electronic files during the audit of tax years 2008 and 2009, which was conducted through the course of 2011. After working with our advisor, we believe the matters raised in the various assessments, other than those noted above, represent a remote risk of loss.

In addition to the amounts assessed, it is possible that we could also be assessed up to Brazilian Reais 26,711 ($13,214 at June 30, 2012 exchange rates) for penalties and interest on the 2003 assessment and up to Brazilian Reais 110,711 ($54,607 at June 30, 2012 exchange rates) for interest and inflationary adjustments on the 2007 assessment. After working with our advisors on these matters, we believe we have good defenses against each matter and do not believe it is probable that we will suffer a material loss for amounts in the 2007 and the 2011 assessments or any other unassessed amounts noted above. While we will continue to vigorously pursue administrative and, if applicable, judicial action in defending against the 2003 Federal import tax assessment, we continue to maintain a reserve for the principal amount assessed at June 30, 2012.

In March 2008, we and one of our subsidiaries were named as defendants in a lawsuit arising out of the 2005 bankruptcy of Refco, Inc., and its subsidiaries and affiliates (collectively, Refco). The liquidators of numerous Cayman Island-based hedge funds filed suit (the Krys action) against Grant Thornton LLP, Mayer Brown Rowe & Maw, LLP, Phillipp Bennet, and numerous other individuals and entities. The Krys action alleges that we and our subsidiary aided and abetted the fraud and breach of fiduciary duty of Refco insiders and others by participating in loan transactions between the subsidiary and Refco in early 2000 and early 2001, causing damage to the hedge funds in an unspecified amount. The action is pending in the U.S. District Court for the Southern District of New York. On July 17, 2012, the trial judge indicated his intention to enter a final judgment in our favor, dismissing plaintiffs claims against us and our subsidiary with prejudice. Such judgment when entered may still be appealed by plaintiffs, but we do not expect the final disposition of the Krys matter to have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

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Item 1A. Risk Factors

We are exposed to risks associated with acquisitions and strategic investments, including our pending acquisition of BrightPoint. We have made and expect to continue to make investments in new business strategies and initiatives, including acquisitions, which could disrupt our business and have an adverse effect on our operating results. Such investments may involve significant risks and uncertainties, including, among others:

- distraction of management s attention away from normal business operations;
- insufficient revenue generation to offset liabilities assumed and expenses associated with the strategy;
- difficulty in the integration of acquired businesses, including new employees, business systems and technology;
- inability to adapt to challenges of new markets, including geographies, products and services, or to attract new sources of profitable business from expansion of products or services;
- exposure to new regulations; and
- issues not discovered in our due diligence process.

In addition, our operations may be adversely impacted by an acquisition that does not meet our expectations, is improperly executed, or substantially increases our debt. Any of the above factors could adversely affect our operating results or financial condition.

On July 2, 2012, we announced that we signed a definitive merger agreement to acquire BrightPoint in a transaction valued at approximately $840,000, including the assumption of approximately $190,000 of BrightPoint s debt (net of cash) as of June 30, 2012. Our pending acquisition of BrightPoint is subject to various customary closing conditions, including approval by BrightPoint s shareholders and receipt of U.S. and foreign antitrust approvals in a timely manner. Other uncertainties of the transaction include pending and future BrightPoint shareholder lawsuits related to proposed or completed transaction; and other unknown, underestimated and/or undisclosed commitments or liabilities; and our ability to enter into and consummate the senior unsecured bridge term loan facility for up to $300,000 for which we have entered into a commitment letter. Further, the success of this pending acquisition will depend in part on our ability to realize the anticipated synergies, cost savings and growth opportunities, including growth of the mobility market in general, that we expect from integrating BrightPoint s business with our business. Our ability to realize these benefits and the timing of this realization will depend on successfully integrating BrightPoint s operations, which will be a complex, costly, and time-consuming process. Any inability to integrate BrightPoint successfully, or a delay in such integration, could have an adverse effect on us. Challenges we may experience with the integration of BrightPoint, or any other acquired business include, among others:

- retaining key employees;
- preserving our and the acquired company s customer, supplier and other important relationships;
- consolidating corporate, administrative, technological and operational infrastructure;

- coordinating sales and marketing functions;
- bridging possible differences in cultures and management philosophies;
- minimizing the diversion of management s attention from ongoing business concerns; and
- coordinating geographically dispersed organizations.

If our acquisition of BrightPoint is not completed, we would be subject to a different set of risks, including the consequences of management s attention being diverted from our day-to-day business over an extended period, any disruption to our relationships with customers or suppliers relating to the pending acquisition, significant costs and expenses that we may have incurred in connection with the pending acquisition, and our inability to realize the benefits that we expect by acquiring BrightPoint.

We had $67,521 of identifiable net intangible assets recorded in connection with various acquisitions as of June 30, 2012 and that amount, as well as the amount of goodwill on our consolidated balance sheet, will substantially increase following the consummation of the BrightPoint acquisition. If our future results of operations are negatively impacted by any of the risk factors noted herein or other unforeseen events, we may have to recognize an impairment charge relating to our long-lived assets, goodwill or identifiable intangible assets, which would adversely affect our results of operations.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) Share Repurchase Program

Our Board of Directors authorized a three-year $400,000 share repurchase program in October 2010. The following table provides information about our monthly share repurchase activity under this program during the second quarter of 2012 (share amounts in thousands):

Issuer Purchases of Equity Securities

Fiscal Month Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
May 14 - May 25, 2012	2,729	$ 18.32	15,205	$ 124,095
Total	2,729			

We repurchased shares under this program through the open market which were funded with available cash and borrowing capacity. Under the program, we may repurchase shares in the open market and through privately negotiated transactions. The timing and amount of specific repurchase transactions will depend upon market conditions, corporate considerations and applicable legal and regulatory requirements.

Item 6. Exhibits

No.	Description
3.1	Amended and Restated Bylaws of Ingram Micro Inc. dated March 6, 2012 (incorporated by reference to Exhibit 3.1 to Ingram Micro Inc. s Current Report on Form 8-K filed on March 7, 2012)
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (SOX)
31.2	Certification by Principal Financial Officer pursuant to Section 302 of SOX
32.1	Certification pursuant to Section 906 of SOX
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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Signatures

Pursuant to the requirements 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/ William D. Humes
Name:	William D. Humes
Title:	Chief Operating and Financial Officer *(Principal Financial Officer and Principal Accounting Officer)*

July 30, 2012

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EXHIBIT INDEX

No.	Description
3.1	Amended and Restated Bylaws of Ingram Micro Inc. dated March 6, 2012 (incorporated by reference to Exhibit 3.1 to Ingram Micro Inc. s Current Report on Form 8-K filed on March 7, 2012)
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (SOX)
31.2	Certification by Principal Financial Officer pursuant to Section 302 of SOX
32.1	Certification pursuant to Section 906 of SOX
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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width="3%" valign="bottom" style="border:none;border-bottom:solid windowtext 1.0pt;padding:0in 0in 0in 0in;width:3.06%;">

4,224,365

Loan Participations and AssignmentsF

1.2%

Health Care Equipment and Supplies

0.1%

Biomet Inc., Term Loan B

3.231% to 3.251%

3/25/10

989,873

943,898

Health Care Providers and Services

0.4%

Community Health Systems Inc., Term Loan, Tranche B	2.506%	2/26/10	1,865,039	1,756,762
Community Health, Delayed Draw Term Loan	2.506%	2/26/10	95,326	

89,792

HCA Inc., Term Loan B

2.501%

3/31/10

1,510,923

1,441,420

E

3,287,974

Independent Power Producers and Energy Traders

0.2%

Calpine Corp., Term Loan

3.135%

3/31/10

1,483,876

1,401,521

Multiline Retail

0.2%

Dollar General Corp., Term Loan, Tranche B

2.981% to 3.031%

1/29/10

1,243,750

1,199,286

Paper and Forest Products

0.2%

Georgia-Pacific Corp., First Lien Term Loan

2.251% to 3.506%

3/31/10

1,667,191

1,607,797

Wireless Telecommunication Services

0.1%

MetroPCS Wireless Inc.	2.500% to 2.563%	2/1/10	989,770	942,756

Total Loan Participations and Assignments (Cost $8,345,260)	9,383,232

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Annual Report to Shareholders

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES	VALUE
Mortgage-Backed Securities	**1.8%**				
Fixed Rate Securities	*0.1%*				
Green Tree Home Improvement Loan Trust 1995-C B2		7.600%	7/15/20	4,063	$ 3,168
Structured Asset Securities Corp. 2002-3 B2		6.500%	3/25/32	771,583	579,713
					582,881
Indexed SecuritiesF	*1.2%*				
Bayview Commercial Asset Trust 2005-2A A2		0.581%	8/25/35	48,474	31,061E
Bear Stearns Adjustable Rate Mortgage Trust 2004-1 23A1		5.456%	4/25/34	619,904	606,910
Bear Stearns Alt-A Trust 2007-1 1A1		0.391%	1/25/47	395,862	182,678
Citigroup Mortgage Loan Trust Inc. 2005-11 A3		4.900%	12/25/35	795,500	599,917
Countrywide Alternative Loan Trust 2005-J12		0.501%	8/25/35	832,217	418,530
Countrywide Home Loan Mortgage Pass-Through Trust 2003-56 6A1		3.461%	12/25/33	2,233,481	1,840,101
DSLA Mortgage Loan Trust 2004-AR1 A2B		0.653%	9/19/44	64,856	18,644
First Horizon Alternative Mortgage Securities 2004-AA4 A1		2.873%	10/25/34	25,638	20,160
First Horizon Alternative Mortgage Securities 2006-FA8 1A8		0.601%	2/25/37	378,335	187,052
Greenpoint Mortgage Funding Trust 2006-AR7 1A1B		0.351%	12/25/46	41,833	8,348
Harborview Mortgage Loan Trust 2006-13 A		0.413%	11/19/46	1,077,073	513,465
Harborview Mortgage Loan Trust 2007-7 2A1A		1.231%	11/25/47	105,946	55,100
IndyMac Index Mortgage Loan Trust 2006-AR15 A1		0.351%	7/25/36	2,964,944	1,376,497
MASTR Adjustable Rate Mortgages Trust 2006-0A1 1A1		0.441%	4/25/46	746,497	338,000
RBSGC Mortgage Pass-Through Certificates 2007-B 1A4		0.681%	1/25/37	376,802	185,350
Residential Asset Securitization Trust 2003-A1 A2		0.731%	3/25/33	551,166	498,677

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Annual Report to Shareholders

Portfolio of Investments Continued

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund Continued

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES		VALUE
Mortgage-Backed Securities Continued						
Indexed SecuritiesF Continued						
Terwin Mortgage Trust 2006-9HGA A1		0.394%	10/25/37	1,040,709	$	1,041,203E
WaMu Alternative Mortgage Pass-Through Certificates 2006-AR01 A1B		0.551%	2/25/36	135,126		26,042
WaMu Mortgage Pass-Through Certificates 2004-AR08 A1		0.670%	6/25/44	41,014		26,523
WaMu Mortgage Pass-Through Certificates 2004-AR2 A		1.944%	4/25/44	2,772,938		1,577,940
WaMu Mortgage Pass-Through Certificates 2006-AR11 1A		1.504%	9/25/46	101,684		54,889
WaMu Mortgage Pass-Through Certificates 2006-AR6 2A		1.504%	8/25/46	422,850		223,399
						9,830,486
Variable Rate SecuritiesI	*0.5%*					
Banc of America Funding Corp. 2005-F 4A1		5.286%	9/20/35	329,895		228,801
Banc of America Funding Corp. 2006-D 6A1		5.851%	5/20/36	1,691,505		1,042,508
Citigroup Mortgage Loan Trust Inc. 2007-6 1A1A		5.345%	3/25/37	977,919		364,215
Countrywide Alternative Loan Trust 2004-33 1A1		3.117%	12/25/34	13,569		9,599
Countrywide Alternative Loan Trust 2004-33 2A1		3.571%	12/25/34	11,565		7,147
Harborview Mortgage Loan Trust 2006-2		3.985%	2/25/36	505,836		303,502
MASTR Adjustable Rate Mortgages Trust 2006-2 3A1		4.845%	1/25/36	1,245,951		1,004,190
Morgan Stanley Mortgage Loan Trust 2007-11AR 2A3		6.182%	6/25/37	279,134		147,479
Nomura Asset Acceptance Corp. 2004-AR4 1A1		2.764%	12/25/34	95,543		88,360
Thornburg Mortgage Securities Trust 2007-4 3A1		6.198%	9/25/37	376,532		300,894
WaMu Mortgage Pass-Through Certificates 2007-HY1 4A1		5.387%	2/25/37	518,831		366,949

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Annual Report to Shareholders

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES		VALUE
Mortgage-Backed Securities Continued						
Variable Rate SecuritiesI Continued						
WaMu Mortgage Pass-Through Certificates 2007-HY3 1A1		5.574%	3/25/37	406,173	$	280,088
						4,143,732
Total Mortgage-Backed Securities						
(Cost $10,990,192)						14,557,099
Yankee BondsJ	**2.0%**					
Commercial Banks	*0.1%*					
Glitnir Banki Hf		6.693%	6/15/16	2,540,000		254D,E,G,K
ICICI Bank Ltd.		6.375%	4/30/22	1,103,000		990,177G
Kaupthing Bank Hf		7.125%	5/19/16	4,410,000		441D,E,K
						990,872
Construction and Engineering	*0.4%*					
Odebrecht Finance Ltd.		7.500%	10/18/17	2,973,000		3,084,488E
Diversified Financial Services	*0.3%*					
Lukoil International Finance BV		6.356%	6/7/17	1,570,000		1,542,525
Lukoil International Finance BV		6.656%	6/7/22	570,000		544,350
						2,086,875
Diversified Telecommunication Services	*0.5%*					
Axtel SA		7.625%	2/1/17	3,643,000		3,570,140
Metals and Mining	*0.1%*					
Vedanta Resources PLC		8.750%	1/15/14	770,000		787,325E
Oil, Gas and Consumable Fuels	*N.M.*					
Gazprom		6.212%	11/22/16	190,000		181,925E
Road and Rail	*0.1%*					
Grupo Transportacion Ferroviaria Mexicana SA de CV		9.375%	5/1/12	1,010,000		1,047,875

Annual Report to Shareholders

Portfolio of Investments Continued

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund Continued

	% OF NET ASSETS	RATE	MATURITY DATE	PAR/ SHARES		VALUE
Yankee BondsJ Continued						
Wireless Telecommunication Services	*0.5%*					
True Move Co. Ltd.		10.750%	12/16/13	2,040,000	$	1,968,600E
True Move Co. Ltd.		10.750%	12/16/13	1,910,000		1,843,150
						3,811,750
Total Yankee Bonds						
(Cost $22,602,388)						15,561,250
Foreign Government Obligations	**5.4%**					
Canadian Government Bond		4.250%	12/1/21	13,946,543CAD		17,580,098 L
Commonwealth of Australia		4.000%	8/20/20	18,315,000AUD		25,473,584 L
Total Foreign Government Obligations						
(Cost $38,929,100)						43,053,682
Preferred Stocks	**0.2%**					
Fannie Mae		8.250%		591,425shs		650,568G,M,N
Freddie Mac		8.375%		656,850		689,692G,M,N
Total Preferred Stocks						
(Cost $31,442,262)						1,340,260
Total Long-Term Securities						
(Cost $769,896,644)						785,202,859
Total Investments						
(Cost $769,896,644)O	**99.2%**					785,202,859
Other Assets Less Liabilities	**0.8%**					6,504,919
Net Assets	**100.0%**				$	791,707,778

	EXPIRATION	ACTUAL CONTRACTS		DEPRECIATION
Futures Contracts PurchasedP				
German Euro Bobl Futures	March 2010	96	$	(120,418)
U.S. Treasury Note Futures	March 2010	68		(220,159)
			$	(340,577)

N.M. Not Meaningful.

Securities are denominated in U.S. Dollars, unless otherwise noted.
A

Treasury Inflation-Protected Security Treasury security whose principal value is adjusted daily in accordance with changes to the Consumer Price Index for All Urban Consumers. Interest is calculated on the basis of the current adjusted principal value.

B *All or a portion of this security is collateral to cover futures and options contracts written.*

C *All or a portion of this security is collateral to cover swaps.*

D *The coupon payment on these securities is currently in default as of December 31, 2009.*

E *Rule 144a Security A security purchased pursuant to Rule 144a under the Securities Act of 1933 which may not be resold subject to that rule except to qualified institutional buyers. These securities, which the Fund s investment adviser has determined to be liquid, unless otherwise noted, represent 2.16% of net assets.*

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Annual Report to Shareholders

F Indexed Security The rates of interest earned on these securities are tied to the London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR) Index, the Consumer Price Index (CPI), the one-year Treasury Bill Rate or the ten-year Japanese Government Bond Rate. The coupon rates are the rates as of December 31, 2009.

G Stepped Coupon Security A security with a predetermined schedule of interest or dividend rate changes at which time it begins to accrue interest or pay dividends according to the predetermined schedule.

H Pay-in-Kind (PIK) security A security in which interest or dividends during the initial few years is paid in additional PIK securities rather than in cash.

I The coupon rates shown on variable rate securities are the rates at December 31, 2009. These rates vary with the weighted average coupon of the underlying loans.

J Yankee Bond A dollar-denominated bond issued in the U.S. by foreign entities.

K Illiquid security valued at fair value under the procedures approved by the Board of Trustees.

L Inflation-Protected Security Security whose principal value is adjusted daily or monthly in accordance with changes to the relevant country s Consumer Price Index or its equivalent used as an inflation proxy. Interest is calculated on the basis of the current adjusted principal value.

M On September 7, 2008, the Federal Housing Finance Agency placed Fannie Mae (FNMA) and Freddie Mac (FHLMC) into conservatorship.

N Non-income producing.

O Aggregate cost for federal income tax purposes is $769,900,467.

P Futures are described in more detail in the notes to financial statements.

Abbreviations used in this schedule:

AUD Australian Dollar

CAD Canadian Dollar

See notes to financial statements.

Annual Report to Shareholders

Statement of Assets and Liabilities

December 31, 2009

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

Assets:		
Investment securities at value (Cost $769,896,644)		$ 785,202,859
Cash		281,988
Interest receivable		7,281,511
Unrealized appreciation of swaps		306,296
Unrealized appreciation of forward foreign currency contracts		306,153
Deposits with brokers for open futures contracts		276,829
Amounts receivable for open swaps		20,061
Total assets		793,675,697
Liabilities:		
Unrealized depreciation of swaps	$ 553,022	
Accrued advisory fee	405,553	
Premiums received on open swaps	365,468	
Unrealized depreciation of forward foreign currency contracts	161,820	
Futures variation margin payable	146,981	
Accrued administration fee	10,617	
Foreign currency overdraft at value (Cost $8,422)	8,253	
Accrued expenses	316,205	
Total liabilities		1,967,919
Net Assets		$ 791,707,778
Summary of Shareholders Equity:		
Common shares, no par value, unlimited number of shares authorized, 61,184,134 shares issued and outstanding (Note 5)		$ 852,918,854
Overdistributed net investment income		(1,504,348)
Accumulated net realized loss on investments, options, futures, swaps and foreign currency transactions		(74,570,011)
Unrealized appreciation of investments, futures, swaps and foreign currency translations		14,863,283
Net Assets		$ 791,707,778
Net asset value per common share ($791,707,778 ÷ 61,184,134 common shares issued and outstanding)		$12.94

See notes to financial statements.

Annual Report to Shareholders

Statement of Operations

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

		FOR THE YEAR ENDED DECEMBER 31, 2009
Investment Income:		
Interest	$ 31,152,219	
Dividends	158,438	
Total income		$ 31,310,657
Expenses:		
Advisory fees (Note 2)	5,538,202	
Audit and legal fees	206,641	
Administration fee (Note 2)	125,000	
Reports to shareholders	105,294	
Custodian fees	97,947	
Trustees fees and expenses	90,548	
Transfer agent and shareholder servicing expense	62,080	
Registration fees	48,884	
Taxes, other than federal income taxes	20,755	
Other expenses	56,587	
	6,351,938	
Interest expense (Note 3)	693,962	
Net expenses		7,045,900
Net Investment Income		24,264,757
Net Realized and Unrealized Gain/(Loss) on Investments (Notes 1, 3 and 4):		
Net realized gain/(loss) on:		
Investments	(21,218,693)	
Written options	733,922	
Futures	(1,211,827)	
Swaps	1,488,473	
Foreign currency transactions	(1,141,098)	
		(21,349,223)
Change in unrealized appreciation/(depreciation) of:		
Investments	107,562,764	
Futures	4,192,166	
Swaps	10,878,616	
Foreign currency translations	(82,122)	
		122,551,424
Net Realized and Unrealized Gain on Investments		101,202,201
Change in Net Assets Resulting From Operations		$ 125,466,958

See notes to financial statements.

Annual Report to Shareholders

Statement of Changes in Net Assets

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

	FOR THE YEARS ENDED DECEMBER 31, 2009	2008
Change in Net Assets:		
Net investment income	$ 24,264,757	$ 52,375,796
Net realized gain/(loss)	(21,349,223)	17,230,123
Change in unrealized appreciation/(depreciation)	122,551,424	(144,892,039)
Change in Net Assets Resulting from Operations	125,466,958	(75,286,120)
Distributions to Common Shareholders from (Note 1 and 7):		
Net investment income	(27,078,390)	(55,680,481)
Return of capital	(3,513,677)	
Decrease in net assets from distribution to shareholders	(30,592,067)	(55,680,481)
Change in Net Assets	94,874,891	(130,966,601)
Net Assets:		
Beginning of year	696,832,887	827,799,488
End of year	$ 791,707,778	$ 696,832,887
(Overdistributed) and undistributed net investment income, respectively	$ (1,504,348)	$ 397,395

See notes to financial statements.

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Annual Report to Shareholders

Statement of Cash Flows

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

		FOR THE YEAR ENDED DECEMBER 31, 2009
Cash flows provided (used) by operating activities:		
Interest and dividends received	$	28,965,996
Operating expenses paid		(6,279,010)
Interest paid		(697,578)
Net sales and maturities of short-term investments		6,618
Realized loss on futures contracts		(1,211,827)
Realized gain on options		733,922
Realized gain on swap contracts		1,488,473
Realized loss on foreign currency transactions		(1,141,098)
Net change in unrealized appreciation on futures contracts		4,192,166
Net change in unrealized depreciation on foreign currencies		(82,122)
Purchases of long-term investments		(372,710,967)
Proceeds from disposition of long-term investments		460,719,451
Cash deposits with brokers for futures contracts		3,823,300
Change in premium for written swaps		511,051
Change in payable to broker variation margin		1,274,372
Change in receivable/payable for open forward currency contracts		82,158
Net cash provided by operating activities		119,674,905
Cash flows provided (used) by financing activities:		
Cash distributions paid on common stock		(32,981,201)
Cash paid on reverse repurchase agreements		(92,986,000)
Net cash used by financing activities		(125,967,201)
Net decrease in cash		(6,292,296)
Cash, beginning of year		6,566,031
Cash, end of year	$	273,735
Reconciliation of Increase in Net Assets From Operations to Net Cash Flows Provided (Used) by Operating Activities:		
Increase in net assets from operations	$	125,466,958
Accretion of discount on investments		(5,836,255)
Amortization of premium on investments		2,708,073
Increase in investments, at value		(8,809,696)
Decrease in payable for securities purchased		(711,280)
Decrease in interest and dividends receivable		880,539
Decrease in premium for written swaps		(511,051)
Decrease in receivable for securities sold		1,238,475
Increase in payable for open forward currency contracts		82,158
Increase in payable to broker variation margin		1,274,372
Decrease in deposits with brokers for futures contracts		3,823,300
Decrease in interest payable		(3,616)

Increase in accrued expenses	72,928
Total adjustments	(5,792,053)
Net cash flows provided by operating activities	$ 119,674,905

See notes to financial statements.

Annual Report to Shareholders

Financial Highlights

Contained below is per share operating performance data for a share of common stock outstanding throughout each period shown, total investment return, rations to average net assets and other supplemental data. This information has been derived from information in the financial statements.

	YEARS ENDED DECEMBER 31,				
	2009	2008	2007	2006	2005
Net asset value, beginning of year	$ 11.39	$ 13.53	$ 13.03	$ 13.46	$ 14.00
Investment operations:					
Net investment income	.40A	.86A	.72A	.71A	1.15
Net realized and unrealized gain/(loss)	1.65	(2.09)	.52	(.19)	(.53)
Total from investment operations	2.05	(1.23)	1.24	.52	.62
Dividends paid to preferred shareholders from:					
Net investment income	N/A	N/A	N/A	(.29)	(.22)
Total from investment operations applicable to common shareholders	2.05	(1.23)	1.24	.23	.40
Distributions paid to common shareholders from:					
Net investment income	(.44)	(.91)	(.74)	(.44)	(.94)
Return of capital	(.06)			(.22)	
Total distributions	(.50)	(.91)	(.74)	(.66)	(.94)
Net asset value, end of year	$ 12.94	$ 11.39	$ 13.53	$ 13.03	$ 13.46
Market value, end of year	$ 12.04	$ 10.49	$ 11.76	$ 11.57	$ 11.87
Average market value per share	$ 11.32	$ 11.51	$ 11.68	$ 11.59	$ 12.58
Total Investment Return Based On:B					
Market value	19.91%	(3.37)%	8.21%	3.15%	(.26)%
Net asset value	18.40%	(9.50)%	9.81%	1.76%	2.94%
Ratios and Supplemental Data					
Ratio of total expense to average weekly net assets (including interest expense) attributable to:					
Common sharesC	.95%	1.20%	.92%	1.43%	1.47%
Total managed assetsC,E	.76%	1.01%	.90%	.95%	.93%
Ratio of net expense to average weekly net assets (including interest expense) attributable to:					
Common sharesD	.95%	1.20%	.92%	1.43%	1.47%
Total managed assetsD,E	.76%	1.01%	.90%	.94%	.93%
Ratio of net expense to average weekly net assets (excluding interest expense) attributable to:					
Common sharesD	.86%	.82%	.75%	1.15%	1.20%
Total managed assetsD,E	.69%	.69%	.73%	.76%	.76%
Ratio of net investment income to average weekly net assets attributable to:					
Common sharesD	3.27%	6.57%	5.46%	5.39%	8.46%
Total managed assetsD,E	2.63%	5.53%	5.31%	3.56%	5.37%
Asset coverage on preferred shares, end of yearF	N/A	N/A	N/A	N/AG	301%
Portfolio turnover rate	41%	52%	82%	112%	113%
Net assets, end of year (in thousands)	$791,708	$696,833	$827,799	$797,316	$823,471

A Computed using average daily shares outstanding.

B Total return based on market value reflects changes in market value. Total return based on net asset value reflects changes in the Fund s net asset value during the period. Each figure includes reinvestments of dividends and distributions. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund s shares trade during the period. Total investment return is not annualized for periods of less than one year. Brokerage commissions are not reflected in the calculations.

C This ratio reflects total expenses before compensating balance credits.

D This ratio reflects expenses net of compensating balance credits.

E Total managed assets included the liquidation value of preferred shares through November 22, 2006.

F Asset coverage on preferred shares equals net assets of common shares plus the redemption value of the preferred shares divided by the value of outstanding preferred stock.

G The last series of preferred shares was redeemed on November 22, 2006.

N/A Not applicable.

See notes to financial statements.

Annual Report to Shareholders

Notes to Financial Statements

1. Organization and Significant Accounting Policies

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund (the Fund) is registered under the Investment Company Act of 1940 as amended (the 1940 Act), as a diversified, closed-end management investment company. The Fund commenced operations on February 25, 2004.

The Fund s primary investment objective is to provide current income for its shareholders. Capital appreciation, when consistent with current income, is a secondary investment objective.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through February 19, 2010, the issuance date of the financial statements.

(a) Investment Valuation.

Debt securities are valued at the last quoted bid provided by an independent pricing service that are based on transactions in debt obligations, quotations from bond dealers, market transactions in comparable securities and various other relationships between securities. Publicly traded foreign government debt securities are typically traded internationally in the over-the-counter market, and are valued at the mean between the last quoted bid and asked prices as of the close of business of that market. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. When prices are not readily available, or are determined not to reflect fair value, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities at fair value as determined in accordance with procedures approved by the Fund s Board of Trustees.

The Fund has adopted Financial Accounting Standards Board Codification Topic 820 (formerly, Statement of Financial Accounting Standards No. 157) (ASC Topic 820). ASC Topic 820 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund s investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

- Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of the security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to convert future amounts to a single present amount.

Annual Report to Shareholders

Notes to Financial Statements Continued

The following is a summary of the inputs used in valuing the Fund s assets carried at fair value:

Description	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Long-Term Investments :				
U.S. Government and Agency Obligations		$643,586,117		$643,586,117
Corporate Bonds and Notes		53,496,854		53,496,854
Asset-Backed Securities		4,224,365		4,224,365
Loan Participations and Assignments		9,383,232		9,383,232
Mortgage-Backed Securities		14,557,099		14,557,099
Yankee Bonds		15,561,250		15,561,250
Foreign Government Obligations		43,053,682		43,053,682
Preferred Stocks	$1,340,260			1,340,260
Total Long-Term Investments	$1,340,260	$783,862,599		$785,202,859
Other Financial Instruments:				
Futures Contracts	$ (340,577)			$ (340,577)
Forward Foreign Currency Contracts		$ 144,333		144,333
Credit Default Swaps on Corporate Issues Sell Protection		(553,022)		(553,022)
Credit Default Swaps on Credit Indices Sell Protection		(59,172)		(59,172)
Total Other Financial Instruments	(340,577)	(467,861)		(808,438)
Total	$ 999,683	$783,394,738		$784,394,421

See Portfolio of Investments for additional detailed categorizations.

Values include any premiums paid or received with respect to swap contracts.

(b) Repurchase Agreements

The Fund may enter into repurchase agreements with institutions that its investment manager has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, a fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and of the fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during a fund s holding period. When entering into repurchase agreements, it is the Fund s policy that its custodian or a third party custodian, acting on the Fund s behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked to market and measured against the value of the agreement to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Reverse Repurchase Agreements

The Fund may enter into reverse repurchase agreements. Under the terms of a typical reverse repurchase agreement, a fund sells a security subject to an obligation to repurchase the security from the buyer at an agreed-upon time and price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund s use of the proceeds of the agreement may be restricted pending a determination by the counterparty, or its trustee or receiver, whether to enforce the Fund s obligation to repurchase the securities. In entering into reverse repurchase agreements, the Fund will maintain cash, U.S. government securities or other liquid debt obligations at least equal in value to its obligations with respect to reverse repurchase agreements or will take other actions permitted by law to cover its obligations.

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(d) Futures Contracts

The Fund may use futures contracts to gain exposure to, or hedge against, changes in the value of interest rates or foreign currencies. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. The daily changes in contract value are recorded as unrealized gains or losses in the Statement of Operations and the Fund recognizes a realized gain or loss when the contract is closed.

Futures contracts involve, to varying degrees, risk of loss in excess of the amounts reflected in the financial statements. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(e) Written Options

When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked to market daily to reflect the current market value of the option written. If the option expires, the premium received is recorded as a realized gain. When a written call option is exercised, the difference between the premium received plus the option exercise price and the Fund s basis in the underlying security (in the case of a covered written call option), or the cost to purchase the underlying security (in the case of an uncovered written call option), including brokerage commission, is recognized as a realized gain or loss. When a written put option is exercised, the amount of the premium received is subtracted from the cost of the security purchased by the Fund from the exercise of the written put option to form the Fund s basis in the underlying security purchased. The writer or buyer of an option traded on an exchange can liquidate the position before the exercise of the option by entering into a closing transaction. The cost of a closing transaction is deducted from the original premium received resulting in a realized gain or loss to the Fund.

The risk in writing a covered call option is that the Fund may forego the opportunity of profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised. The risk in writing a call option is that the Fund is exposed to the risk of loss if the market price of the underlying security increases. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(f) Forward Foreign Currency Contracts

The Fund may enter into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked to market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

Forward foreign currency contracts involve elements of market risk in excess of the amounts reflected on the Statement of Assets and Liabilities. The Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

(g) Swap Agreements

The Fund may invest in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes. The use of swaps involves risks that are different from those associated with ordinary portfolio transactions.

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Notes to Financial Statements Continued

Swap contracts are marked to market daily and changes in value are recorded as unrealized appreciation/(depreciation). Gains or losses are realized upon termination of the swap agreement. Periodic payments and premiums received or made by the Fund are recognized in the Statement of Operations as realized gains or losses, respectively. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund s custodian in compliance with the terms of the swap contracts. Securities held as collateral for swap contracts are identified in the Schedule of Investments and restricted cash, if any, is identified on the Statement of Assets and Liabilities. Risks may exceed amounts recorded in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts terms, and the possible lack of liquidity with respect to the swap agreements.

Payments received or made at the beginning of the measurement period are reflected as a premium or deposit, respectively, on the Statement of Assets and Liabilities. These upfront payments are amortized over the life of the swap and are recognized as realized gain or loss in the Statement of Operations. A liquidation payment received or made at the termination of the swap is recognized as realized gain or loss in the Statement of Operations. Net periodic payments received or paid by the Fund are recognized as realized gain or loss at the time of receipt or payment in the Statement of Operations.

As disclosed in the Fund s summary of open swap contracts, the aggregate fair value of credit default swaps in a net liability position as of December 31, 2009 was $612,194. The aggregate fair value of assets posted as collateral for all swaps was $627,098. If a defined credit event had occurred as of December 31, 2009, the swaps credit-risk-related contingent features would have been triggered and the Fund would have been required to pay up to $24,108,000 less the value of the contracts related reference obligations.

Credit Default Swaps

The Fund may enter into credit default swap (CDS) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to a sovereign issuer) or to take an active long or short position with respect to the likelihood of a particular issuer s default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to Financial Statements and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund s maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund s exposure to the counterparty). As the

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protection seller, the Fund s maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk in excess of the related amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

Interest Rate Swaps

The Fund may enter into interest rate swap contracts. Interest rate swaps are agreements between two parties to exchange cash flows based on a notional principal amount. The Fund may elect to pay a fixed rate and receive a floating rate, or, receive a fixed rate and pay a floating rate on a notional principal amount. The net interest received or paid on interest rate swap agreements is accrued daily as interest income. Interest rate swaps are marked to market daily based upon quotations from market makers and the change, if any, is recorded as an unrealized gain or loss in the Statement of Operations. When a swap contract is terminated early, the Fund records a realized gain or loss equal to the difference between the original cost and the settlement amount of the closing transaction.

The risks of interest rate swaps include changes in market conditions that will affect the value of the contract or changes in the present value of the future cash flow streams and the possible inability of the counterparty to fulfill its obligations under the agreement. The Fund s maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract s remaining life, to the extent that that amount is positive. This risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund s exposure to the counterparty.

(h) Inflation-Indexed Bonds

Inflation-indexed bonds are fixed-income securities whose principal value or interest rate is periodically adjusted according to the rate of inflation. As the index measuring inflation changes, the principal value or interest rate of inflation-indexed bonds will be adjusted accordingly. Inflation adjustments to the principal amount of inflation-indexed bonds are reflected as an increase or decrease to investment income on the Statement of Operations. Repayment of the original bond principal upon maturity (as adjusted for inflation) is guaranteed in the case of U.S. Treasury inflation-indexed bonds. For bonds that do not provide a similar guarantee, the adjusted principal value of the bond repaid at maturity may be less than the original principal.

(i) Loan Participations

The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund s investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

(j) Foreign Currency Translation

Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

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Notes to Financial Statements Continued

The Fund does not isolate that portion of the results of operations resulting from fluctuations in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from sales of foreign currencies, including gains and losses on forward foreign currency contracts, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund s books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the fair values of assets and liabilities, other than investments in securities, on the date of valuation, resulting from changes in exchange rates.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(k) Credit and Market Risk

Investments in securities that are collateralized by residential real estate mortgages are subject to certain credit and liquidity risks. When market conditions result in an increase in default rates of the underlying mortgages and foreclosure values of underlying real estate properties are materially below the outstanding amount of these underlying mortgages, collection of the full amount of accrued interest and principal on these investments may be doubtful. Such market conditions may significantly impair the value and liquidity of these investments and may result in a lack of correlation between their credit ratings and values.

(l) Security Transactions and Investment Income

Security transactions are accounted for on a trade date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or credit event occurs by the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

(m) Distributions to Shareholders

Distributions from net investment income for the Fund, if any, are declared and paid on a monthly basis. Distributions of net realized gains, if any, are declared at least annually. Distributions are recorded on the ex-dividend date and are determined in accordance with income tax regulations, which may differ from GAAP.

(n) Compensating Balance Agreements

The Fund has an arrangement with its custodian bank whereby a portion of the custodian s fees is paid indirectly by credits earned on the Fund s cash deposit with the bank.

(o) Other

In the normal course of business, the Fund enters into contracts that provide general indemnifications. The Fund s maximum exposure under these arrangements is dependent upon claims that may be made against the Fund in the future and, therefore, cannot be estimated; however, based on experience, the risk of material loss from such claims is considered remote.

(p) Federal and Other Taxes

It is the Fund s policy to comply with the federal income and excise tax requirements of the Internal Revenue Code of 1986 (the Code), as amended, applicable to regulated investment companies. Accordingly, the Fund intends to distribute its taxable income and net realized gains, if any, to shareholders in accordance with timing requirements imposed by the Code. Therefore, no federal income tax provision is required in the Fund s financial statements.

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Management has analyzed the Fund s tax positions taken on federal income tax returns for all open tax years and has concluded that as of December 31, 2009, no provision for income tax is required in the Fund s financial statements. The Fund s federal and state income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by Internal Revenue Service and state departments of revenue.

(q) Reclassification

GAAP requires that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset values per share. During the current year, the following reclassifications have been made:

	Overdistributed Net Investment Income	Accumulated Net Realized Loss	Paid-in Capital
(a)	$ 20,755		$(20,755)
(b)	891,135	$(891,135)	

(a) Reclassifications are primarily due to a non-deductible excise tax paid by the Fund.

(b) Reclassifications are primarily due to foreign currency transactions treated as ordinary income for tax purposes, losses from mortgage backed securities treated as capital losses for tax purposes, book/tax differences in the treatment of swap contracts and book/tax differences in the treatment of Treasury Inflation-Protected Securities.

2. Investment Management Agreement and Other Transactions with Affiliates

The Fund has entered into an Investment Advisory Agreement with Claymore Advisors, LLC (Investment Adviser), which provides for payment of a monthly fee computed at the annual rate of 0.60% of the Fund s average weekly assets. The Investment Adviser has, in turn, entered into an Investment Management Agreement with Western Asset Management Company (Investment Manager), pursuant to which the Investment Manager provides investment management services to the Fund. In exchange for the services provided by the Investment Manager, the Investment Adviser pays a portion of the fees it receives from the Fund to the Investment Manager, at the annual rate of 0.27% of the Fund s average weekly assets. Average weekly assets means the average weekly value of the total assets of the Fund (including any assets attributable to leverage) minus accrued liabilities (other than liabilities representing leverage). For purposes of calculating average weekly assets, neither the liquidation preference of any preferred shares outstanding nor any liabilities associated with any instrument or transactions used by the Investment Manager to leverage the Fund s portfolio (whether or not such instruments or transactions are covered as described in the prospectus) is considered a liability.

Western Asset Management Company Pte. Ltd. (Western Asset Singapore), Western Asset Management Company Limited (Western Asset London) and Western Asset Management Company Ltd (Western Asset Japan) are the Fund s investment managers. Western Asset London, Western Asset Singapore and Western Asset Japan provide certain investment management services to the Fund relating to currency transactions and investment in non-U.S. denominated securities. Western Asset London, Western Asset Singapore and Western Asset Japan do not receive any compensation from the Fund.

Under an administrative agreement with the Fund, Legg Mason Partners Fund Advisor, LLC (LMPFA) (Administrator), an affiliate of the Investment Manager, provides certain administrative and accounting functions for the Fund. In consideration for these services, the Fund pays the Administrator a monthly fee at an annual rate of $125,000.

The Board approved the substitution of LMPFA for Legg Mason Fund Adviser, Inc. (LMFA). Effective September 30, 2009 LMPFA assumed the rights and responsibilities of LMFA under its administrative agreement.

3. Investments

During the year ended December 31, 2009, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) and U.S Government & Agency Obligations were as follows:

	Investments	U.S. Government & Agency Obligations
Purchases	$68,928,229	$302,117,180
Sales	34,471,918	423,964,902

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Notes to Financial Statements Continued

At December 31, 2009, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	$ 55,530,971
Gross unrealized depreciation	(40,228,579)
Net unrealized appreciation	$ 15,302,392

Transactions in reverse repurchase agreements for the Fund during the year ended December 1, 2009 were as follows:

Average Daily Balance	Weighted Average Interest Rate	Maximum Amount Outstanding
$178,354,464	0.38%	$332,196,700

Interest rates on reverse repurchase agreements ranged from 0.18% to 0.70% during the year ended December 31, 2009. Interest expense incurred on reverse repurchase agreements totaled $693,962.

During the year ended December 31, 2009, written option transactions for the Fund were as follows:

	Number of Contracts	Premiums
Written options, outstanding December 31, 2008		
Options written	725	$ 733,922
Options closed		
Options exercised	(177)	(247,146)
Options expired	(548)	(486,776)
Written options, outstanding December 31, 2009		

At December 31, 2009, the Fund had the following open forward foreign currency contracts:

Broker	Settlement Date	ReceiveA	Contract to	DeliverA	Unrealized Gain (Loss)

Credit Suisse First Boston (London)	2/17/2010	USD	2,264,536	AUD	2,500,592	$	29,085
Credit Suisse First Boston (London)	2/17/2010	USD	8,148,378	AUD	8,955,245		142,666
Credit Suisse First Boston (London)	2/17/2010	USD	6,122,407	AUD	6,741,996		95,271
Credit Suisse First Boston (London)	2/17/2010	USD	9,052,674	AUD	10,082,613		39,131
Credit Suisse First Boston (London)	2/17/2010	USD	9,295,045	CAD	9,890,393		(161,820)
						$	144,333

A Definitions of currency abbreviations:

AUD Australian Dollar

CAD Canadian Dollar

USD United States Dollar

At December 31, 2009, the Fund had the following open swap contracts:

CREDIT DEFAULT SWAP ON CORPORATE ISSUES SELL PROTECTION1

Swap Counterparty (Reference Entity)	Termination Date	Implied Credit Spread At December 31, 20092	Periodic Payments Received by the Fund	Contract Notional Amount3	Market Value	Upfront Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)
JP Morgan Chase & Co. (SLM Corporation, 5.125%, due 8/27/12)	December 20, 2012	5.14%	2.50% Quarterly	$8,100,000	$(553,022)		$(553,022)

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CREDIT DEFAULT SWAP ON CREDIT INDICES SELL PROTECTION1

Swap Counterparty (Reference Entity)	Termination Date	Periodic Payments Received by the Fund	Notional Amount3	Market Value4	Upfront Premiums Paid/ (Received)	Unrealized Appreciation/ (Depreciation)
Barclays Capital Inc. (CDX HY 8)	June 20, 2012	2.75% Quarterly	$ 7,308,000	$ (27,013)	$(262,384)	$235,371
JP Morgan Chase & Co. (CDX HY 8)	June 20, 2012	2.75% Quarterly	8,700,000	(32,159)	(103,084)	70,925
Total			$16,008,000	$ (59,172)	$(365,468)	$306,296

1 If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will either (i) pay to the buyer of protection an amount equal to the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index or (ii) pay a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation or underlying securities comprising the referenced index.

2 Implied credit spreads, utilized in determining the market value of credit default swap agreements on corporate issues or sovereign issues of an emerging country as of period end serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. A credit spread identified as Defaulted indicates a credit event has occurred for the referenced entity or obligation.

3 The maximum potential amount the Fund could be required to make as a seller of credit protection or receive as a buyer of credit protection if a credit event occurs as defined under the terms of that particular swap agreement.

4 The quoted market prices and resulting values for credit default swap agreements on asset-backed securities and credit indices serve as an indicator of the current status of the payment/performance risk and represent the likelihood of an expected liability (or profit) for the credit derivative should the notional amount of the swap agreement been closed/sold as of the period end. Decreasing market values when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

Percentage shown is an annual percentage rate.

4. Derivative Instruments and Hedging Activities

Financial Accounting Standards Board Codification Topic 815 (formerly, Statement of Financial Accounting Standards No. 161) (ASC Topic 815) requires enhanced disclosure about an entity s derivative and hedging activities.

Below is a table, grouped by derivative type that provides information about the fair value and the location of derivatives within the Statement of Assets and Liabilities at December 31, 2009.

Asset Derivatives1

	Foreign Exchange Contracts Risk	Credit Contracts Risk	Other Contracts Risk	**Total**
Swap Contracts		$306,296		$306,296
Forward Foreign Currency Contracts	$306,153			306,153
	$306,153	$306,296		$612,449

Liability Derivatives1

	Interest Rate Contracts Risk	Foreign Exchange Contracts Risk	Credit Contracts Risk	Other Contracts Risk	**Total**
Futures Contracts2	$340,577				$ 340,577
Swap Contracts3			$918,490		918,490
Forward Foreign Currency Contracts		$161,820			161,820
Total	$340,577	$161,820	$918,490		$1,420,887

1 Generally, the balance sheet location for asset derivatives is receivables/net unrealized appreciation(depreciation) and for liability derivatives is payables/net unrealized appreciation(depreciation).

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Notes to Financial Statements Continued

2 Includes cumulative appreciation/depreciation of futures contracts as reported in the footnotes. Only current day s variation margin is reported within the receivables and/or payables of the Statement of Assets and Liabilities.

3 Values include premiums paid/(received) on swap contracts which are shown separately in the Statement of Assets and liabilities.

The following tables provide information about the effect of derivatives and hedging activities on the Fund s Statement of Operations for the year ended December 31, 2009. The first table provides additional detail about the amounts and sources of gains/(losses) realized on derivatives during the period. The second table provides additional information about the changes in unrealized appreciation/(depreciation) resulting from the Fund s derivatives and hedging activities during the period.

Amount of Realized Gain or (Loss) on Derivatives Recognized

	Interest Rate Contracts Risk	Foreign Exchange Contracts Risk	Credit Contracts Risk	Other Contracts Risk	Total
Written Options	$ 733,922				$ 733,922
Futures Contracts	(1,211,827)				(1,211,827)
Swap Contracts	4,677,444		$(3,188,971)		1,488,473
Forward Foreign Currency Contracts		(924,757)			(924,757)
Total	$ 4,199,539	$(924,757)	$(3,188,971)		$ 85,811

Change in Unrealized Appreciation/Depreciation on Derivatives Recognized

	Interest Rate Contracts Risk	Foreign Exchange Contracts Risk	Credit Contracts Risk	Other Contracts Risk	Total
Futures Contracts	$4,192,166				$ 4,192,166
Swap Contracts			$10,878,616		10,878,616
Forward Foreign Currency Contracts		$(82,158)			(82,158)
Total	$4,192,166	$(82,158)	$10,878,616		$ 14,988,624

During the year ended December 31, 2009 the Fund had average market values of $53,492, $7,085,432, $16,461,125, $49,708,184 and $6,097,665 in written options, forward foreign currency contracts to buy, forward foreign currency contracts to sell, futures contracts to buy and futures contracts to sell, respectively, average notional balances in interest rate swap contracts of $12,876,923 and average notional balances of $89,152,954 in credit default swap contracts (to sell protection).

The Fund has several credit related contingent features that if triggered would allow its derivatives counterparties to close out and demand payment or additional collateral to cover their exposure from the Fund. Credit related contingent features are established between the Fund and its derivatives counterparties to reduce the risk that the Fund will not fulfill its payment obligations to its counterparties. These triggering features include, but are not limited to, a percentage decrease in the Fund s net assets and or percentage decrease in the Fund s Net Asset Value or NAV. The contingent features are established within the Fund s International Swap and Derivatives Association, Inc. master agreements which govern positions in swaps, over-the-counter options, and forward currency exchange contracts for each individual counterparty.

5. Common Shares

Of the 61,184,134 shares of beneficial interest outstanding at December 31, 2009, the Investment Manager owned 6,981 shares.

6. Trustee Compensation

Each Independent Trustee receives a fee of $15,000 for serving as a Trustee of the Fund and a fee of $1,500 and related expenses for each meeting of the Board of Trustees attended. The Chairman of the Board receives an additional $5,000 for serving in that capacity. The Audit Committee Chairman and the Governance and Nominating Committee Chairman each receive an additional $3,000 for serving in their respective capacities. Members of the Audit Committee and the Governance and Nominating Committee receive $500 for each committee meeting attended.

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7. Income Tax Information and Distributions to Shareholders

Subsequent to the fiscal year end, the Fund has made the following distributions:

Record Date	Payable Date	Per Share Distribution
01/15/2010	01/29/2010	$ 0.040000
02/12/2010	02/26/2010	$ 0.040000

The tax character of distributions paid during the fiscal years ended December 31, was as follows:

	2009	2008
Distributions paid from:		
Ordinary Income	$27,078,390	$55,680,481
Tax Return of Capital	3,513,677	
Total Distributions Paid	$30,592,067	$55,680,481

As of December 31, 2009, the components of accumulated earnings on a tax basis were as follows:

Capital loss carryforward*	$(70,186,501)
Other book/tax temporary differences(a)	(5,884,035)
Unrealized appreciation/(depreciation)(b)	14,859,460
Total accumulated earnings/(losses) net	$(61,211,076)

** As of December 31, 2009, the Fund had the following net capital loss carryforward remaining:*

Year of Expiration	Amount
12/31/2012	$(10,084,162)
12/31/2013	(10,088,445)
12/31/2014	(30,022,572)
12/31/2017	(19,991,322)
	$(70,186,501)

These amounts will be available to offset any future taxable capital gains.

(a) Other book/tax temporary differences are attributable primarily to the tax deferral of losses on straddles, realization for tax purposes of unrealized gains/(losses) on certain futures and foreign currency contracts, the deferral of post-October currency and capital losses for tax purposes, differences between book/tax accrual of interest income on securities in default, book/tax differences in the treatment of Tresury Inflation-Protected Securities and book/tax differences in the timing of the deductibility of various expenses.

(b) The difference between book-basis and tax-basis unrealized appreciation/(depreciation) is attributable primarily to the tax deferral of losses on wash sales.

Annual Report to Shareholders

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Western Asset/Claymore Inflation-Linked Opportunities & Income Fund:

In our opinion, the accompanying statement of assets and liabilities, including the portfolio of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Western Asset/Claymore Inflation-Linked Opportunities & Income Fund (the Fund) at December 31, 2009, the results of its operations, the changes in its net assets, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Fund s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial 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 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, which included confirmation of securities at December 31, 2009 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Baltimore, Maryland
February 19, 2010

Annual Report to Shareholders

Important Tax Information (Unaudited)

The following information is provided with respect to the distributions paid during the taxable year ended December 31, 2009:

Record Date:	Monthly	Monthly
Payable Date:	January 2009	February 2009 December 2009
Ordinary Income:		
Qualified Dividend Income for Individuals**	0.59%	0.59%
Dividends Qualifying for the Dividends Received Deduction for Corporations**	0.59%	0.59%
Interest from Federal Obligations	51.17%*	51.17%*
Tax Return of Capital	5.86%	12.11%

* *The Fund has met the quarterly asset requirements for California, Connecticut and New York Resident Shareholders.*

** *Expressed as a percentage net of Tax Return of Capital.*

The law varies in each state as to whether and what percentage of dividend income attributable to Federal obligations is exempt from state income tax. We recommend that you consult with your tax adviser to determine if any portion of the dividends you received is exempt from state income taxes.

Please retain this information for your records.

Annual Report to Shareholders

Trustees and Officers

The Trustees and officers of the Fund, their ages (as of December 31, 2009), and a description of their principal occupations during the past five years are listed below. Except as noted, each Trustee s and officer s principal occupation and business experience for the last five years has been with the employer(s) indicated, although in some cases the Trustee or officer may have held different positions with such employer(s). Unless otherwise indicated, the business address of the persons listed below is c/o Western Asset Management Company, 385 East Colorado Boulevard, Pasadena, CA 91101.

Name and Age	Position(s) Held With Fund	Term of Office and Length of Time Served	Principal Occupations During the Past 5 Years	Number of Portfolios in Fund Complex* Overseen by Trustee(A)	Other Directorships Held by Trustee
Independent Trustees					
Michael Larson 50	Trustee and Chairman of the Board of Trustees(B)(C)	Term expires in 2011; served since September 2004	Chief Investment Officer for William H. Gates III (1994-present).	2	Pan American Silver Corp. (1999-present); Republic Services, Inc. (2009-present); Grupo Telensa, S.A.B. (2009-present).
Ronald A. Nyberg 56	Trustee(B)(C)	Term expires in 2009; served since January 2004	Partner of Nyberg & Cassioppi, LLC, a law firm specializing in corporate law, estate planning and business transactions (2000- present); Formerly, Executive Vice President, General Counsel and Corporate Secretary of Van Kampen Investments (1982-1999).	44	None
Ronald E. Toupin, Jr. 51	Trustee(B)(C)	Term expires in 2010; served since January 2004	Retired. Formerly: Vice President, Manager and Portfolio Manager of Nuveen Asset Management, an investment advisory firm (1998-1999); Vice President and Portfolio Manager of Nuveen Investment Advisory Corporation, an investment advisory firm (1992-1999); Vice President and Manager of Nuveen Unit Investment Trusts (1991-1999); and Assistant Vice President and Portfolio Manager of Nuveen Unit Trusts (1988- 1999), and John Nuveen & Company, Inc. (1982-1999)	41	None
Interested Trustee					
R. Jay Gerken 58	Trustee and President(D)	Term expires 2010; served since March 2007	Managing Director of Legg Mason & Co., Chairman, President and Chief Executive	147	None

			Officer of certain mutual funds associated with Legg Mason & Co., LLC (Legg Mason & Co.) or its affiliates (2005-present); President of Legg Mason Partners Fund Advisor, LLC (LMPFA) (2006-present); Chairman of Smith Barney Fund Management LLC and Citi Fund Management Inc. (2002-2005); Chairman, President and Chief Executive Officer of Travelers Investment Adviser, Inc. (2002-2005).		

Annual Report to Shareholders

Name and Age	Position(s) Held With Fund	Term of Office and Length of Time Served	Principal Occupations During the Past 5 Years	Number of Portfolios in Fund Complex* Overseen by Trustee(A)	Other Directorships Held by Trustee
Officers(E)					
Charles A. Ruys de Perez 52	Vice President	Served since March 2007	General Counsel of Western Asset Management Company (2007-present). Formerly: Chief Compliance Officer, Putnam Investments (2004-2007); Managing Director and Senior Counsel of Putnam Investments (2001-2004).	N/A	N/A
Frances M. Guggino 53 55 Water Street New York, NY 10041	Treasurer and Principal Financial and Accounting Officer	Served since 2009	Director of Legg Mason; Chief Financial Officer and Treasurer of certain mutual funds associated with Legg Mason; formerly, Controller of certain mutual funds associated with Citigroup Asset Management (CAM) (1999 to 2004)	N/A	N/A
Steven M. Hill 45 2455 Corporate West Drive Lisle, IL 60532	Assistant Treasurer	Served since May 2004	Senior Managing Director of Claymore Advisors, LLC and Claymore Securities, Inc. (2005-present); Chief Financial Officer of Claymore Group Inc. (2005-2006); Managing Director of Claymore Advisors, LLC and Claymore Securities, Inc. (2003- 2005); Chief Financial and Accounting Officer and Treasurer or Assistant Treasurer of certain closed-end investment companies in the Claymore fund complex; Treasurer of Henderson Global Funds and Operations Manager for Henderson Global Investors (North America) Inc. (2002-2003).	N/A	N/A
Susan C. Curry 43 55 Water St. New York, NY 10041	Assistant Treasurer	Served since February 2007	Director of Tax-Mutual Funds, Legg Mason & Co. (2005- present); Director of Tax-Mutual Funds, Citigroup (2004- 2005); Assistant Treasurer, Western Asset Funds, Inc., Western Asset Income Fund, Western Asset Premier Bond Fund, Western Asset/Claymore Inflation-Linked Opportunities & Income Fund (2007-present); Partner,	N/A	N/A

			Deloitte & Touche (1990-2004).			

Annual Report to Shareholders

Trustees and Officers Continued

Name and Age	Position(s) Held With Fund	Term of Office and Length of Time Served	Principal Occupations During the Past 5 Years	Number of Portfolios in Fund Complex* Overseen by Trustee(A)	Other Directorships Held by Trustee
Erin K. Morris 43 100 Light Street Baltimore, MD 21202	Assistant Treasurer	Served since January 2004	Vice President and Manager, Global Funds Administration, Legg Mason & Co. (2005-present); Assistant Vice President and Manager, Legg Mason Wood Walker, Incorporated (2002-2005); Treasurer, Western Asset Income Fund, Western Asset Funds, Inc. and Western Asset Premier Bond Fund (2006-present); Assistant Treasurer of Western Asset/Claymore Inflation-Linked Opportunities & Income Fund (2003-present); Assistant Treasurer of certain Legg Mason Partners Fixed Income Fund complex (2007-present); Assistant Treasurer, Western Asset Income Fund, Western Asset Funds, Inc., Western Asset Premier Bond Fund, Legg Mason Income Trust, Inc. and Legg Mason Tax-Free Income Fund (2001-2006).	N/A	N/A
Todd F. Kuehl 40 100 Light Street Baltimore, MD 21202	Chief Compliance Officer	Served since February 2007	Vice President, Legg Mason & Co. (2006-present); Chief Compliance Officer of Western Asset/Claymore Inflation-Linked Opportunities & Income Fund, Western Asset Income Fund, Western Asset Premier Bond Fund, Western Asset Funds, Inc. (2007-present) and Barrett Growth Fund and Barrett Opportunity Fund (2006- present); Branch Chief, Division of Investment Management, U.S. Securities and Exchange Commission (2002-2006).	N/A	N/A
Melissa J. Nguyen 31 2455 Corporate West Drive Lisle, IL 60532	Secretary	Served since February 2006	Vice President and Assistant General Counsel of Claymore Group, Inc. (2005-present); Secretary of certain funds in the Claymore fund complex	N/A	N/A

			(2005- present). Formerly, Associate, Vedder Price, P.C. (2003-2005).		

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Annual Report to Shareholders

Name and Age	Position(s) Held With Fund	Term of Office and Length of Time Served	Principal Occupations During the Past 5 Years	Number of Portfolios in Fund Complex* Overseen by Trustee(A)	Other Directorships Held by Trustee
Mark E. Mathiasen 31 2455 Corporate West Drive Lisle, IL 60532	Assistant Secretary	Served since May 2007.	Vice President and Assistant General Counsel of Claymore Advisors, LLC (2007 to present). Secretary of certain funds in the Claymore fund complex. Previously, Law Clerk for the Idaho State Courts (2003- 2007).	N/A	N/A

(A) Each Trustee also serves as a Trustee of Western Asset/Claymore Inflation-Linked Securities & Income Fund, a closed-end investment company, which is considered part of the same Fund Complex as the Fund. The Investment Manager serves as investment adviser to Western Asset/Claymore Inflation-Linked Securities & Income Fund. Messrs. Nyberg and Toupin also serve as Trustees of Claymore Dividend & Income Fund, MBIA Capital/Claymore Managed Duration Investment Grade Municipal Fund, TS&W/Claymore Tax-Advantaged Balanced Fund, Madison/Claymore Covered Call & Equity Strategy Fund, Fiduciary/Claymore MLP Opportunity Fund, Old Mutual/Claymore Long- Short Fund, and Claymore/Guggenheim Strategic Opportunities Fund, each of which is a closed-end management investment company, Claymore Exchange-Traded Fund Trust (consisting of 16 separate portfolios) and Claymore Exchange Traded Fund Trust 2 (consisting of 16 separate portfolios), each an open-end management investment company. Additionally, Mr. Nyberg serves as a Trustee for Advent Claymore Convertible Securities & Income Fund, Advent/Claymore Enhanced Growth & Income Fund and Advent/Claymore Global Convertible Securities and Income Fund, each a closed-end investment company. Mr. Gerken serves as Director/Trustee to 145 other portfolios associated with Legg Mason & Co., LLC or its affiliates. Legg Mason & Co., LLC is an affiliate of Western Asset Management Co. (WAM).

(B) Member of the Audit Committee of the Board of Trustees.

(C) Member of the Governance and Nominating Committee of the Board of Trustees.

(D) Mr. Gerken is an interested person (as defined above) of the Fund because of his positions with subsidiaries of, and ownership of shares of common stock of, Legg Mason, Inc., the parent company of WAM.

(E) Each officer shall hold office until his or her respective successor is chosen and qualified, or in each case until he or she sooner dies, resigns, is removed with or without cause or becomes disqualified.

Mr. Dalmaso resigned from the Board on October 14, 2009.

Annual Report to Shareholders

Trustees Consideration of the Management and Advisory Agreements

The Transaction between Claymore Group and Guggenheim.

On October 14, 2009, Claymore Group Inc. (Claymore Group), the parent of Claymore Advisors, LLC (Claymore), merged with an indirect wholly-owned subsidiary of Guggenheim Partners, LLC (Guggenheim) pursuant to a Merger Agreement. Claymore Group was the surviving company and, as a result, it now is an indirect subsidiary of Guggenheim (the Transaction). As a result of the Transaction, the existing Investment Advisory Agreement between Claymore and the Fund (the Prior Advisory Agreement) terminated pursuant to its terms. The following Investment Management Agreements (the Prior Management Agreements) also terminated with respect to the Fund pursuant to their terms: (i) an Investment Management Agreement between Claymore and Western Asset Management Company (Western Asset), (ii) an Investment Management Agreement between Western Asset and Western Asset Management Company Limited (WAML), (iii) an Investment Management Agreement between Western Asset and Western Asset Management Company Pte. Ltd. in Singapore (Western Singapore) and (iv) an Investment Management Agreement between Western Asset and Western Asset Management Company Ltd in Japan (Western Japan, and together with Western Singapore and WAML the Non-U.S. Managers and together with Western Asset, the Managers and together with Claymore, the Advisers).

As permitted pursuant Rule 15a-4 under the Investment Company Act of 1940 (the 1940 Act), the Board (including, with respect to any agreement, a majority of the trustees who are not parties to such agreement or interested persons of any such party, the Independent Trustees) approved an interim investment advisory agreement between the Fund and Claymore (the Interim Advisory Agreement), and approved an interim investment management agreement for each Manager with respect to the Fund (each an Interim Management Agreement). The Interim Advisory Agreement and each Interim Management Agreement became effective on October 14, 2009. Pursuant to Rule 15a-4 and such agreements, the Adviser and the Managers were permitted to continue to serve the Fund in such capacities on an interim basis for up to 150 days following October 14, 2009, pending receipt of shareholder approval of a new Investment Advisory Agreement between the Fund and Claymore (the New Advisory Agreement) and approval of the following new Investment Management Agreements with respect to the Fund (the New Management Agreements) (i) an Investment Management Agreement between Claymore and Western Asset, (ii) an Investment Management Agreement between Western Asset and WAML, (iii) an Investment Management Agreement between Western Asset and Western Singapore and (iv) an Investment Management Agreement between Western Asset and Western Japan. The New Advisory Agreement and New Management Agreements were each approved by shareholders of the Fund at a meeting held on January 12, 2010.

Interim Advisory Agreement and New Advisory Agreement.

Following the execution of the Merger Agreement, a telephonic meeting was held on July 28, 2009 and attended by certain members of the Board, the chief executive officer of Claymore Group and the chief executive officer of Guggenheim. Such executive officers summarized the principal terms of the Merger Agreement, and described the Transaction, the business plans for Claymore following the consummation of the Transaction and answered such questions as were raised at the meeting. Representatives of the Board requested additional information regarding the Transaction, Guggenheim and the impact of the Transaction on the shareholders of the Fund.

During the third quarter of 2009, the Independent Trustees received reports on the progress of the Transaction. As part of its review process, the Independent Trustees were represented by independent legal counsel. The Independent Trustees reviewed materials received from Claymore, Guggenheim and independent legal counsel. Claymore and Guggenheim provided, among other information, information regarding the terms of the Transaction and potential benefits to Claymore from the Transaction. The information provided regarding Guggenheim included (i) financial information, (ii) information regarding senior executives of the firm, (iii) information regarding other Guggenheim affiliated investment managers, (iv) information regarding litigation and regulatory matters and (v) potential conflicts of interest. Claymore and Guggenheim also provided information regarding Guggenheim s and Claymore s intentions for the business, operations and personnel of Claymore following the closing of the Transaction. The Independent Trustees met and discussed the Transaction and the Interim Advisory Agreement and the New Advisory Agreement in September 2009. On September 25, 2009, the Independent Trustees held a special meeting and discussed materials provided by Guggenheim and Claymore in connection with their consideration of the New Advisory Agreement and New Management Agreements. Additional supplemental information regarding the Transaction and Guggenheim was provided by Claymore and Guggenheim and reviewed by the Independent Trustees.

Annual Report to Shareholders

Subsequently, the Board met in person to consider, and approved, the Interim Advisory Agreement and the New Advisory Agreement at a meeting held on September 28, 2009. The Board met with representatives of Claymore and Guggenheim to discuss the Transaction. Representatives from Claymore and Guggenheim discussed the Transaction with, and answered questions from, the Board. The Independent Trustees met in executive session to discuss the Transaction and the information provided at the Board meeting. The Independent Trustees concluded that it was in the best interest of the Fund to approve the Interim Advisory Agreement and New Advisory Agreement and, accordingly, recommended to the Board the approval of the Interim Advisory Agreement and New Advisory Agreement. The Board subsequently approved the Interim Advisory Agreement and approved the New Advisory Agreement for a one-year term. The Board also determined to consider the continuation of the New Advisory Agreement during the course of the one-year term by conducting a thorough review of the information that is part of the Board s regular annual consideration of the continuation of the Fund s investment advisory agreements. In reaching the conclusion to approve the Interim Advisory Agreement and New Advisory Agreement, no single factor was determinative in the Board s analysis, but rather the Board considered a variety of factors.

In connection with the Board s consideration of the Interim Advisory Agreement and the New Advisory Agreement, the Trustees considered, among other information, the following factors:

- within the last year, the Board had engaged in a thorough review of the various factors, including fees and performance, that were part of the decision whether to continue the Prior Advisory Agreement;
- Board approval of the Fund s New Advisory Agreement and Interim Advisory Agreement was a condition to the closing of the Transaction;
- Claymore s statement to the Board that the manner in which the Fund s assets are managed would not change as a result of the Transaction;
- the aggregate advisory fee rate payable by the Fund would not change under the Interim Advisory Agreement or New Advisory Agreement;
- there were no material differences between the terms of the Interim Advisory Agreement and New Advisory Agreement and the terms of the Prior Advisory Agreement, except for those provisions in the Interim Advisory Agreement which are necessary to comply with Rule 15a-4 under the 1940 Act;
- the capabilities of Claymore s personnel who would provide management, shareholder servicing and administrative services to the Fund were not expected to change, and the key personnel who provided management, shareholder servicing and administrative services to the Fund prior to the Transaction were expected to continue to do so after the Transaction;
- the assurance from Claymore and Guggenheim that following the Transaction there would not be any diminution in the nature, quality and extent of services provided to the Fund;
- Claymore s financial condition prior to the Transaction;
- the impact of the Transaction on Claymore s day-to-day operations;
- the reputation, capabilities, experience, organizational structure and financial resources of Guggenheim;
- the long-term business goals of Guggenheim and Claymore with regard to the business and operations of Claymore;
- that shareholders of the Fund would not bear any costs in connection with the Transaction, inasmuch as Claymore would bear the costs, fees and expenses incurred by the Fund in connection with the related proxy statement and any other costs of the Fund associated with the Transaction; and

- that Claymore and certain Guggenheim affiliates involved in the Transaction agreed to refrain from imposing or seeking to impose, for a period of two years after the Closing, any unfair burden (within the meaning of Section 15(f) of 1940 Act) on the Fund.

Annual Report to Shareholders

Trustees Consideration of the Management and Advisory Agreements Continued

Nature, Extent and Quality of Services Provided by the Adviser. The Board noted that key management personnel serving the Fund were expected to remain with Claymore following the Transaction and that the services provided to the Fund by Claymore were not expected to change following of the Transaction. The Board also considered Claymore s and Guggenheim s representations to the Board that Claymore would continue to operate following the closing of the Transaction in much the same manner as it operated prior to the Transaction, and that the impact of the Transaction on the day-to-day operations of Claymore would be neutral or positive. The Board also considered Guggenheim s statement that Claymore s compliance policies and procedures, disaster recovery plans, information security controls and insurance program would not change materially following consummation of the Transaction. Based on this review, the Board concluded that the range and quality of services provided by Claymore to the Fund were expected to continue under the Interim Advisory Agreement and the New Advisory Agreement at the same or improved levels.

Advisory Fees. The Board also observed that the advisory fee rate payable to Claymore would be the same under the Interim Advisory Agreement and New Advisory Agreement as it was under the Prior Advisory Agreement, which had within the last year been determined to be reasonable. The Board concluded that these factors supported approval of the Interim Advisory Agreement and New Advisory Agreement.

Performance. With respect to the performance of the Fund, the Board noted that Claymore delegated responsibility for the management of the Fund s portfolio to the Managers, and the Managers would continue to manage the portfolio following the closing of the Transaction, subject to shareholder approval of the New Management Agreements. The Board concluded that this factor supported approval of the Interim Advisory Agreement and New Advisory Agreement.

Profitability. The Board noted that it was too early to predict how the Transaction may affect Claymore s future profitability from its relationship with the Fund, but concluded that this matter would be given further consideration on an annual basis going forward. The Board also noted that Claymore s fee rates under the Interim Advisory Agreement and New Advisory Agreement are the same as those assessed under the Prior Advisory Agreement.

Economies of Scale. The Board considered any potential economies of scale that may result from the Transaction. The Board further noted Guggenheim s statement that such economies of scale could not be predicted in advance of the closing of the Transaction.

Other Benefits. The Board noted its prior determination that the advisory fee was reasonable, taking into consideration other benefits to Claymore. The Board also considered other benefits to Claymore, Guggenheim and their affiliates expected to be derived from their relationship with the Fund as a result of the Transaction and noted that no additional benefits were reported by Claymore or Guggenheim as a result of the Transaction. Therefore, the Board concluded that the advisory fee continued to be reasonable, taking into consideration other benefits.

Interim Management Agreements and New Management Agreements.

In conjunction with the consideration of the Transaction and the approval of a New Advisory Agreement and Interim Advisory Agreement, the Board, including the Independent Trustees, also considered the Interim Management Agreements and New Management Agreements.

The Board noted that while the closing of the Transaction would result in the termination of each Prior Management Agreement with respect to the Fund pursuant to its terms, no Manager was a party to the Transaction and the operations of each Manager and the services to be provided by each Manager would be unaffected by the Transaction. The Board determined that there were no material differences between the terms of each Interim Management Agreement and New Management Agreement and the corresponding Prior Management Agreement, except with respect to those provisions required to comply with Rule 15a-4 under the 1940 Act. The Board noted that the compensation received by each Manager under the applicable Interim Management Agreement and New Management Agreement was not greater than the compensation such Manager received under the corresponding Prior Management Agreement. The Board noted that the scope and quality of services to be provided to the Fund under each respective Interim Management Agreement and New Management Agreement would be at least equivalent to the scope and quality of services provided under the corresponding Prior Management Agreement. The Board noted that, within the last year, it had engaged in a thorough review of the

Annual Report to Shareholders

various factors, including fees and performance, that are part of the evaluation of the renewal or approval of the Prior Management Agreements. The Board noted that the factors previously considered with respect to approval of each Prior Management Agreement continued to support the approval of the corresponding New Management Agreement and Interim Management Agreement. The Board also determined to consider such factors again within one year of the execution of each New Management Agreement. Based upon its review, the Board concluded that it was in the best interest of the Fund to approve each New Management Agreement and Interim Management Agreement.

Reaffirmation of the New Advisory Agreement and New Management Agreements

The Independent Trustees again considered the New Advisory Agreement and New Management Agreements (collectively, the Agreements) at a meeting held on October 26, 2009. At a meeting held on November 16, 2009, the Independent Trustees reported to the full Board of Trustees their considerations and recommendation with respect to the Agreements, and the Board of Trustees, including a majority of the Independent Trustees, considered and reaffirmed their approval the Agreements that took place on September 28, 2009.

In considering the New Management Agreements, the Trustees noted that although Western Asset s business is operated through separate legal entities, such as the Non-U.S. Managers, its business is highly integrated and senior investment personnel at Western Asset have supervisory oversight responsibility over the investment decisions made by the Non-U.S. Managers. Therefore, in connection with their deliberations noted below, the Trustees primarily focused on the information provided by Western Asset when considering the reaffirmation of the New Management Agreements. The Trustees also noted that the Fund does not pay any management fees directly to any of the Non-U.S. Managers because Western Asset pays the Non-U.S. Managers for services provided to the Fund out of the management fees Western Asset receives from Claymore.

In arriving at their decision to reaffirm the Agreements, the Trustees met with representatives of Claymore and Western Asset, including, in the case of Western Asset, relevant investment advisory personnel; reviewed a variety of information prepared by Claymore and Western Asset and materials provided by Lipper Inc. (Lipper) and counsel to the Independent Trustees; reviewed performance and expense information for peer groups of comparable funds, selected and prepared by Lipper, and certain other products available from Western Asset for investments in U.S. TIPS, including separate accounts managed by Western Asset; and requested and reviewed additional information as necessary. These reviews were in addition to information obtained by the Trustees at their regular quarterly meetings with respect to the Fund s performance and other relevant matters, such as information on public trading in the Fund s shares and differences between the Fund s share price and net asset value per share, and related discussions with Claymore s and Western Asset s personnel.

As part of their review, the Trustees examined Claymore s ability to provide high quality oversight and administrative and shareholder support services to the Fund, and the Managers ability to provide high quality investment management services to the Fund. The Trustees considered the experience of Claymore s personnel in providing the types of services that Claymore is responsible for providing to the Fund, such as oversight of the Fund and the Managers with respect to portfolio management, and written and oral communications with the closed-end fund analyst community, investment advisers and current and prospective shareholders; the ability of Claymore to attract and retain capable personnel; the capability and integrity of Claymore s senior management and staff; and the level of skill required to provide such services to the Fund. The Trustees also considered the investment philosophy and research and decision-making processes of the Managers; the experience of their key advisory personnel responsible for management of the Fund; the ability of the Managers to attract and retain capable research and advisory personnel; the capability and integrity of the Managers senior management and staff; and the level of skill required to manage the Fund, noting in particular the substantial complexities in purchasing fixed income securities of below-investment-grade quality and emerging-markets debt instruments. In addition, the Trustees reviewed the quality of the Claymore s and the Managers services with respect to regulatory compliance and compliance with the investment policies of the Fund and conditions that might affect Claymore s and the Managers ability to provide high quality services to the Fund in the future, including their business reputations, financial conditions and respective operational stability. Based on the foregoing, the Trustees concluded that the Managers investment process, research capabilities and philosophy were well suited to the Fund given its investment objectives and policies, that Claymore s various services were valuable to the Fund and that the Advisers would be able to meet any reasonably foreseeable obligations under the Agreements.

Annual Report to Shareholders

Trustees Consideration of the Management and Advisory Agreements Continued

In reviewing the quality of the services provided to the Fund, the Trustees also reviewed a comparison of the performance of the Fund to the average performance of all leveraged closed-end funds that invest at least 65% of their assets in corporate and government debt issues rated in the top four grades regardless of asset size. The Trustees noted that the Fund had met its primary objective of producing current income to shareholders and, although the performance of the Fund over the one-year period ended August 31, 2009 was well below that of its Lipper peer group, the Fund s performance for the three- and five-year periods ended on that date was slightly higher than the average performance of the peer group. The Trustees concluded that the Advisers management of the Fund would continue to be in the best interests of the shareholders.

The Trustees also considered the advisory fee payable by the Fund to Claymore, the management fee payable by Claymore to Western Asset, the management fees payable by Western Asset to the Non-U.S. Managers and the total expenses payable by the Fund. They reviewed information concerning fees paid to investment advisers of similarly-managed funds, the fees paid by Claymore s other closed-end fund clients, as well as fees paid by Western Asset s other clients, including separate accounts managed by Western Asset. The Trustees observed that the advisory fee paid by the Fund to Claymore and the Fund s total expense ratio were each below the corresponding medians of its Lipper peer group as measured without regard to leveraged assets. The Trustees considered that the advisory fee paid by the Fund to Claymore was below the average of the fees paid to Claymore by other closed-end fund clients; that Claymore was responsible for payment of the management fees to the Managers; and that the net fee retained by Claymore was below its fees from other closed-end fund clients. The Trustees noted that the management fee paid by Claymore to Western Asset was generally higher than the fees paid by clients of Western Asset for accounts with similar investment strategies, but that the administrative and operational responsibilities for Western Asset with respect to the Fund were also relatively higher and that the Fund s investment strategy included investments in asset classes other than U.S. TIPS, which was generally not the case for Western Asset s other clients. In light of these differences, the Trustees concluded that the differences in management fees from those paid by Western Asset s other clients were reasonable.

The Trustees further evaluated the benefits of the advisory relationship to the Advisers, including, among others, the profitability of the relationship to Claymore and the Managers; the direct and indirect benefits that Claymore and the Managers may receive from their relationship with the Fund, including the fallout benefits, such as reputational value derived from serving as investment manager or adviser; and the affiliation between the Managers and Legg Mason Partners Funds Advisor, LLC, the Fund s administrator. In that connection, the Trustees concluded that the Claymore s and the Managers profitability was consistent with levels of profitability that had been determined by courts not to be excessive. The trustees noted that Western Asset does not have soft dollar arrangements.

Finally, the Trustees considered, in light of the profitability information provided by Claymore and the Managers, the extent to which economies of scale would be realized by the Advisers as the assets of the Fund grow. The Trustees concluded that, because the Fund is a closed-end fund and does not make a continuous offer of its securities, the Fund s size was relatively fixed and it would be unlikely that the Advisers would realize economies of scale from the Fund s growth. The Trustees further noted that, as Claymore s and the Managers profitability was consistent with levels of profitability that had been determined by courts not to be excessive, any economies of scale that may currently exist were being appropriately shared with shareholders.

In their deliberations with respect to these matters, the Independent Trustees were advised by their independent counsel, who are independent of the Advisers within the meaning of the Securities and Exchange Commission rules regarding the independence of counsel. The Independent Trustees weighed the foregoing matters in light of the advice given to them by their independent counsel as to the law applicable to the review of investment advisory contracts. In arriving at a decision, the Trustees, including the Independent Trustees, did not identify any single matter as all-important or controlling, and the foregoing summary does not detail all the matters considered. The Trustees judged the terms and conditions of the Agreements, including the investment advisory fees, in light of all of the surrounding circumstances.

Based upon their review, the Trustees, including all of the Independent Trustees, determined, in the exercise of their business judgment, that they were satisfied with the quality of investment advisory services being provided by the Managers and the advisory, oversight, administrative and after-market support services being provided by Claymore; that the fees to be paid to the Advisers under the relevant Agreements were fair and reasonable given the scope and quality of the services rendered by each Adviser; and that reaffirming their prior approval of the Agreements was in the best interest of the Fund and its shareholders.

Privacy Policy

We are committed to keeping nonpublic personal information about you secure and confidential. This notice is intended to help you understand how we fulfill this commitment. From time to time, we may collect a variety of personal information about you, including:

- Information we receive from you on applications and forms, via the telephone, and through our websites;
- Information about your transactions with us, our affiliates, or others (such as your purchases, sales, or account balances); and
- Information we receive from consumer reporting agencies.

We do not disclose nonpublic personal information about our customers or former customers, except to our affiliates (such as broker-dealers or investment advisers within the Legg Mason family of companies) or as is otherwise permitted by applicable law or regulation. For example, we may share this information with others in order to process your transactions or service an account. We may also provide this information to companies that perform marketing services on our behalf, such as printing and mailing, or to other financial institutions with whom we have joint marketing agreements. When we enter into such agreements, we will require these companies to protect the confidentiality of this information and to use it only to perform the services for which we hired them.

With respect to our internal security procedures, we maintain physical, electronic, and procedural safeguards to protect your nonpublic personal information, and we restrict access to this information.

If you decide at some point either to close your account(s) or become an inactive customer, we will continue to adhere to our privacy policies and practices with respect to your nonpublic personal information.

NOT PART OF THE ANNUAL REPORT

Western Asset/Claymore Inflation-Linked
Opportunities & Income Fund

Officers
R. Jay Gerken, President
Charles A. Ruys de Perez, Vice-President
Todd F. Kuehl, Chief Compliance Officer
Frances M. Guggino, Treasurer and Principal Financial and Accounting Officer
Steven M. Hill, Assistant Treasurer
Erin K. Morris, Assistant Treasurer
Susan C. Curry, Assistant Treasurer
Melissa J. Nguyen, Secretary
Mark Mathiasen, Assistant Secretary

Investment Adviser
Claymore Advisors, LLC
2455 Corporate West Drive
Lisle, IL 60532

Investment Managers
Western Asset Management Company
385 East Colorado Boulevard
Pasadena, CA 91101

Western Asset Management Company Limited
10 Exchange Square
London, England EC2A2EN

Investment Managers (continued)
Western Asset Management Company Pte. Ltd.
1 George Street #23-01
Singapore 049145

Western Asset Management Company Ltd
36F Shin-Marunouchi Building
5-1 Marunouchi 1-Chronu Chiyoda
Tokyo 100-6536

Custodian
State Street Bank and Trust Company
1 Lincoln Street
Boston, MA 02111

Counsel
Ropes & Gray LLP
1211 Avenue of the Americas
New York, NY 10036

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
100 East Pratt Street
Baltimore, MD 21202

Transfer Agent
American Stock Transfer & Trust Company LLC
59 Maiden Lane
New York, New York, NY 10038

This report is sent to shareholders of Western Asset/Claymore Inflation-Linked Opportunities & Income Fund for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

In accordance with Section 23(c) of the Investment Company Act of 1940, the Fund hereby gives notice that it may, from time to time, repurchase its shares in the open market at the option of the Board of Trustees, and on such terms as the Board of Trustees shall determine.

WIW-A(02/10)

Item 2. Code of Ethics

(a) Western Asset/Claymore Inflation-Linked Opportunities & Income Fund (Registrant) has adopted a Code of Ethics, as defined in the instructions to Item 2 of Form N-CSR, that applies to the Registrant s principal executive, financial and accounting officers, a copy of which is attached as an exhibit to this Form N-CSR.

(b) Omitted.

(c) Not applicable.

(d) Not applicable.

(e) Not applicable

Item 3. Audit Committee Financial Expert

The Audit Committee of the Registrant s Board of Trustees is comprised solely of Trustees who are independent (as such term has been defined by the Securities and Exchange Commission (SEC) in regulations implementing Section 407 of the Sarbanes-Oxley Act of 2002 (the Regulations)). In addition, the Board of Trustees of the Registrant has determined that Mr. Ronald E. Toupin, Jr. qualifies as an audit committee financial expert (as such term has been defined in the Regulations) based on its review of his pertinent experience, knowledge and education. The SEC has stated that the designation or identification of a person as an audit committee financial expert pursuant to this Item 3 of Form N-CSR does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liabilities imposed on such person as a member of the Audit Committee and the Board of Trustees in absence of such designation or identification.

Item 4. Principal Accounting Fees and Services

(a) Audit Fees

Fiscal Year Ended December 31, 2008 $30,000

Fiscal Year Ended December 31, 2009 $31,500

(b) Audit-Related Fees

Fiscal Year Ended December 31, 2008 $0

Fiscal Year Ended December 31, 2009 $0

During the year ended December 31, 2009, review of the rating agency compliance testing for the Registrant s auction market preferred shares outstanding was reviewed.

PricewaterhouseCoopers LLP billed fees in the amount of $230,000and $410,000, respectively for non-audit services that required preapproval by the Audit Committee pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the Registrant s fiscal year ended December 31, 2008 and December 31, 2009, respectively.

During the year ended December 31, 2009, PricewaterhouseCoopers LLP conducted a SAS 70 audit to review and test operating effectiveness of controls placed in operation for Western Asset Management Company. During the year ended December 31, 2009, PricewaterhourseCoopers LLP reviewed the Australian Superannuation Circular.

Tax Fees

Fiscal Year Ended December 31, 2008 $4,000

Fiscal Year Ended December 31, 2009 $4,000

Services include preparation of federal and state income tax returns and preparation of excise tax returns.

PricewaterhouseCoopers LLP did not bill fees for tax services that required preapproval by the Audit Committee pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the Registrant s last two fiscal years.

(c) All Other Fees

There were no fees billed to the Registrant during each of the last two fiscal years by PricewaterhouseCoopers LLP that were not disclosed in Items 4(a), (b) or (c) above.

PricewaterhouseCoopers LLP did not bill fees for services not included in Items 4(a), (b) or (c) above that required pre-approval by the Audit Committee pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the Registrant s last two fiscal years.

(e) (1) The Audit Committee has determined that all work performed for the Registrant by PricewaterhouseCoopers LLP will be pre-approved by the full Audit Committee and, therefore, has not adopted preapproval policies and procedures.

(2) None.

(f) Not applicable.

(g) Non-Audit Fees

Fiscal Year Ended December 31, 2008 $362,500

Fiscal Year Ended December 31, 2009 $2,082,000

(h) The Audit Committee of the Registrant has considered whether the non-audit services that were rendered by the Registrant s principal accountant to the Registrant s investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the investment adviser and that were not preapproved by the Audit Committee are compatible with maintaining the principal accountant s independence.

Item 5. Audit Committee of Listed Registrants

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

Michael Larson

Ronald A. Nyberg

Ronald E. Toupin, Jr.

b) Not applicable

Item 6. Portfolio of Investments

The schedule of investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the annual report to shareholders contained in Item 1 hereof.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies

Proxy Voting Guidelines and Procedures

The Proxy Voting Policies and Procedures govern in determining how proxies relating to the fund s portfolio securities are voted and are provided below. Information regarding how each fund voted proxies (if any) relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge (1) by calling 888-425-6432, (2) on the fund s website at http://www.leggmason.com/individualinvestors and (3) on the SEC s website at http://www.sec.gov.

Background

Western Asset Management Company (WA), Western Asset Management Company Limited (WAML), Western Asset Management Company Ltd (WAMCL) and Western Asset Management Company Pte. Ltd. (WAMC) (together Western Asset) have adopted and implemented policies and procedures that we believe are reasonably designed to ensure that proxies are voted in the best interest of clients, in accordance with our fiduciary duties and SEC Rule 206(4)-6 under the Investment Advisers Act of 1940 (Advisers Act). Our authority to vote the proxies of our clients is established through investment management agreements or comparable documents, and our proxy voting guidelines have been tailored to reflect these specific contractual obligations. In addition to SEC requirements governing advisers, our proxy voting policies reflect the long-standing fiduciary standards and responsibilities for ERISA accounts. Unless a manager of ERISA assets has been expressly precluded from voting proxies, the Department of Labor has determined that the responsibility for these votes lies with the Investment Manager.

In exercising its voting authority, Western Asset will not consult or enter into agreements with officers, directors or employees of Legg Mason Inc. or any of its affiliates (except that WA, WAML, WAMCL and WAMC may so consult and agree with each other) regarding the voting of any securities owned by its clients.

Policy

Western Asset s proxy voting procedures are designed and implemented in a way that is reasonably expected to ensure that proxy matters are handled in the best interest of our clients. While the guidelines included in the procedures are intended to provide a benchmark for voting standards, each vote is ultimately cast on a case-by-case basis, taking into consideration Western Asset s contractual obligations to our clients and all other relevant facts and circumstances at the time of the vote (such that these guidelines may be overridden to the extent Western Asset deems appropriate).

Procedures

Responsibility and Oversight

The Western Asset Compliance Department (Compliance Department) is responsible for administering and overseeing the proxy voting process. The gathering of proxies is coordinated through the Corporate Actions area of Investment Support (Corporate Actions). Research analysts and portfolio managers are responsible for determining appropriate voting positions on each proxy utilizing any applicable guidelines contained in these procedures.

Client Authority

Prior to August 1, 2003, all existing client investment management agreements (IMAs) will be reviewed to determine whether Western Asset has authority to vote client proxies. At account start-up, or upon amendment of an IMA, the applicable client IMA are similarly reviewed. If an agreement is silent on proxy voting, but contains an overall delegation of discretionary authority or if the account represents assets of an ERISA plan, Western Asset will assume responsibility for proxy voting. The Client Account Transition Team maintains a matrix of proxy voting authority.

Proxy Gathering

Registered owners of record, client custodians, client banks and trustees (Proxy Recipients) that receive proxy materials on behalf of clients should forward them to Corporate Actions. Prior to August 1, 2003, Proxy Recipients of existing clients will be reminded of the appropriate routing to Corporate Actions for proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. Proxy Recipients for new clients (or, if Western Asset becomes aware that the applicable Proxy Recipient for an existing client has changed, the Proxy Recipient for the existing client) are notified at start-up of appropriate routing to Corporate Actions of proxy materials received and reminded of their responsibility to forward all proxy materials on a timely basis. If Western Asset personnel other than Corporate Actions receive proxy materials, they should promptly forward the materials to Corporate Actions.

Proxy Voting

Once proxy materials are received by Corporate Actions, they are forwarded to the Compliance Department for coordination and the following actions:

a. Proxies are reviewed to determine accounts impacted.

b. Impacted accounts are checked to confirm Western Asset voting authority.

c. Compliance Department staff reviews proxy issues to determine any material conflicts of interest. (See conflicts of interest section of these procedures for further information on determining material conflicts of interest.)

d. If a material conflict of interest exists, (i) to the extent reasonably practicable and permitted by applicable law, the client is promptly notified, the conflict is disclosed and Western Asset obtains the client s proxy voting instructions, and (ii) to the extent that it is not reasonably practicable or permitted by applicable law to notify the client and obtain such instructions (e.g., the client is a mutual fund or other commingled vehicle or is an ERISA plan client), Western Asset seeks voting instructions from an independent third party.

e. Compliance Department staff provides proxy material to the appropriate research analyst or portfolio manager to obtain their recommended vote. Research analysts and portfolio managers determine votes on a case-by-case basis taking into account the voting guidelines contained in these procedures. For avoidance of doubt, depending on the best interest of each individual client, Western Asset may vote the same proxy differently for different clients. The analyst s or portfolio manager s basis for their decision is documented and maintained by the Compliance Department.

f. Compliance Department staff votes the proxy pursuant to the instructions received in (d) or (e) and returns the voted proxy as indicated in the proxy materials.

Timing

Western Asset personnel act in such a manner to ensure that, absent special circumstances, the proxy gathering and proxy voting steps noted above can be completed before the applicable deadline for returning proxy votes.

Recordkeeping

Western Asset maintains records of proxies voted pursuant to Section 204-2 of the Advisers Act and ERISA DOL Bulletin 94-2. These records include:

a. A copy of Western Asset s policies and procedures.

b. Copies of proxy statements received regarding client securities.

c. A copy of any document created by Western Asset that was material to making a decision how to vote proxies.

d. Each written client request for proxy voting records and Western Asset s written response to both verbal and written client requests.

e. A proxy log including:

1. Issuer name;

2. Exchange ticker symbol of the issuer s shares to be voted;

3. Council on Uniform Securities Identification Procedures (CUSIP) number for the shares to be voted;

4. A brief identification of the matter voted on;

5. Whether the matter was proposed by the issuer or by a shareholder of the issuer;

6. Whether a vote was cast on the matter;

7. A record of how the vote was cast; and

8. Whether the vote was cast for or against the recommendation of the issuer s management team.

Records are maintained in an easily accessible place for five years, the first two in Western Asset s offices.

Disclosure

Part II of the WA Form ADV, the WAML Form ADV, the WAMCL Form ADV and WAMC Form ADV, each, contain a description of Western Asset s proxy policies. Prior to August 1, 2003, Western Asset will deliver Part II of its revised Form ADV to all existing clients, along with a letter identifying the new disclosure. Clients will be provided a copy of these policies and procedures upon request. In addition, upon request, clients may receive reports on how their proxies have been voted.

Conflicts of Interest

All proxies are reviewed by the Compliance Department for material conflicts of interest. Issues to be reviewed include, but are not limited to:

1. Whether Western Asset (or, to the extent required to be considered by applicable law, its affiliates) manages assets for the company or an employee group of the company or otherwise has an interest in the company;

2. Whether Western Asset or an officer or director of Western Asset or the applicable portfolio manager or analyst responsible for recommending the proxy vote (together, Voting Persons) is a close relative of or has a personal or business relationship with an executive, director or person who is a candidate for director of the company or is a participant in a proxy contest; and

3. Whether there is any other business or personal relationship where a Voting Person has a personal interest in the outcome of the matter before shareholders.

Voting Guidelines

Western Asset s substantive voting decisions turn on the particular facts and circumstances of each proxy vote and are evaluated by the designated research analyst or portfolio manager. The examples outlined below are meant as guidelines to aid in the decision making process.

Guidelines are grouped according to the types of proposals generally presented to shareholders. Part I deals with proposals which have been approved and are recommended by a company s board of directors; Part II deals with proposals submitted by shareholders for inclusion in proxy statements; Part III addresses issues relating to voting shares of investment companies; and Part IV addresses unique considerations pertaining to foreign issuers.

I. Board Approved Proposals

The vast majority of matters presented to shareholders for a vote involve proposals made by a company itself that have been approved and recommended by its board of directors. In view of the enhanced corporate governance practices currently being implemented in public companies, Western Asset generally votes in support of decisions reached by independent boards of directors. More specific guidelines related to certain board-approved proposals are as follows:

1. Matters relating to the Board of Directors

Western Asset votes proxies for the election of the company s nominees for directors and for board-approved proposals on other matters relating to the board of directors with the following exceptions:

a. Votes are withheld for the entire board of directors if the board does not have a majority of independent directors or the board does not have nominating, audit and compensation committees composed solely of independent directors.

b. Votes are withheld for any nominee for director who is considered an independent director by the company and who has received compensation from the company other than for service as a director.

c. Votes are withheld for any nominee for director who attends less than 75% of board and committee meetings without valid reasons for absences.

d. Votes are cast on a case-by-case basis in contested elections of directors.

2. Matters relating to Executive Compensation

Western Asset generally favors compensation programs that relate executive compensation to a company s long-term performance. Votes are cast on a case-by-case basis on board-approved proposals relating to executive compensation, except as follows:

a. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for stock option plans that will result in a minimal annual dilution.

b. Western Asset votes against stock option plans or proposals that permit replacing or repricing of underwater options.

c. Western Asset votes against stock option plans that permit issuance of options with an exercise price below the stock s current market price.

d. Except where the firm is otherwise withholding votes for the entire board of directors, Western Asset votes for employee stock purchase plans that limit the discount for shares purchased under the plan to no more than 15% of their market value, have an offering period of 27 months or less and result in dilution of 10% or less.

3. Matters relating to Capitalization

The management of a company s capital structure involves a number of important issues, including cash flows, financing needs and market conditions that are unique to the circumstances of each company. As a result, Western Asset votes on a case-by-case basis on board-approved proposals involving changes to a company s capitalization except where Western Asset is otherwise withholding votes for the entire board of directors.

a. Western Asset votes for proposals relating to the authorization of additional common stock.

b. Western Asset votes for proposals to effect stock splits (excluding reverse stock splits).

c. Western Asset votes for proposals authorizing share repurchase programs.

4. Matters relating to Acquisitions, Mergers, Reorganizations and Other Transactions

Western Asset votes these issues on a case-by-case basis on board-approved transactions.

5. Matters relating to Anti-Takeover Measures

Western Asset votes against board-approved proposals to adopt anti-takeover measures except as follows:

a. Western Asset votes on a case-by-case basis on proposals to ratify or approve shareholder rights plans.

b. Western Asset votes on a case-by-case basis on proposals to adopt fair price provisions.

6. Other Business Matters

Western Asset votes for board-approved proposals approving such routine business matters such as changing the company s name, ratifying the appointment of auditors and procedural matters relating to the shareholder meeting.

a. Western Asset votes on a case-by-case basis on proposals to amend a company s charter or bylaws.

b. Western Asset votes against authorization to transact other unidentified, substantive business at the meeting.

II. Shareholder Proposals

SEC regulations permit shareholders to submit proposals for inclusion in a company s proxy statement. These proposals generally seek to change some aspect of a company s corporate governance structure or to change some aspect of its business operations. Western Asset votes in accordance with the recommendation of the company s board of directors on all shareholder proposals, except as follows:

1. Western Asset votes for shareholder proposals to require shareholder approval of shareholder rights plans.

2. Western Asset votes for shareholder proposals that are consistent with Western Asset s proxy voting guidelines for board-approved proposals.

3. Western Asset votes on a case-by-case basis on other shareholder proposals where the firm is otherwise withholding votes for the entire board of directors.

III. Voting Shares of Investment Companies

Western Asset may utilize shares of open or closed-end investment companies to implement its investment strategies. Shareholder votes for investment companies that fall within the categories listed in Parts I and II above are voted in accordance with those guidelines.

1. Western Asset votes on a case-by-case basis on proposals relating to changes in the investment objectives of an investment company taking into account the original intent of the fund and the role the fund plays in the clients portfolios.

2. Western Asset votes on a case-by-case basis all proposals that would result in increases in expenses (e.g., proposals to adopt 12b-1 plans, alter investment advisory arrangements or approve fund mergers) taking into account comparable expenses for similar funds and the services to be provided.

IV. Voting Shares of Foreign Issuers

In the event Western Asset is required to vote on securities held in foreign issuers i.e. issuers that are incorporated under the laws of a foreign jurisdiction and that are not listed on a U.S. securities exchange or the NASDAQ stock market, the following guidelines are used, which are premised on the existence of a sound corporate governance and disclosure framework. These guidelines, however, may not be appropriate under some circumstances for foreign issuers and therefore apply only where applicable.

1. Western Asset votes for shareholder proposals calling for a majority of the directors to be independent of management.

2. Western Asset votes for shareholder proposals seeking to increase the independence of board nominating, audit and compensation committees.

3. Western Asset votes for shareholder proposals that implement corporate governance standards similar to those established under U.S. federal law and the listing requirements of U.S. stock exchanges, and that do not otherwise violate the laws of the jurisdiction under which the company is incorporated.

4. Western Asset votes on a case-by-case basis on proposals relating to (1) the issuance of common stock in excess of 20% of a company s outstanding common stock where shareholders do not have preemptive rights, or (2) the issuance of common stock in excess of 100% of a company s outstanding common stock where shareholders have preemptive rights.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

(a)(1):

NAME AND ADDRESS	**PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS**
S. Kenneth Leech	Co-portfolio manager of the fund; Chief Investment Officer of Western Asset from 1998 to 2008; Senior Advisor/Chief Investment Officer Emeritus of Western Asset.
Western Asset	
385 East Colorado Blvd.	
Pasadena, CA	
91101	
Stephen A. Walsh	Co-portfolio manager of the fund; Deputy Chief Investment Officer of Western Asset from 2000 to 2008; Chief Investment Officer of Western Asset since 2008.
Western Asset	
385 East Colorado Blvd.	
Pasadena, CA	
91101	
Keith J. Gardner	Co-portfolio manager of the fund; portfolio manager and research analyst at Western Asset since 1994.
Western Asset	
385 East Colorado Blvd.	
Pasadena, CA	
91101	
Michael C. Buchanan	Co-portfolio manager of the fund; Managing Director and head of U.S. Credit Products from 2003-2005 at Credit Suisse Asset Management
Western Asset	
385 East Colorado Blvd.	

Pasadena, CA

91101

Peter H. Stutz	Co-portfolio manager of the fund; portfolio manager at Western Asset since 1997.

Western Asset

385 East Colorado Blvd.

Pasadena, CA

Paul E. Wynn	Co-portfolio manager of the fund; portfolio manager at Western Asset for more than five years

Western Asset

385 East Colorado Blvd.

Pasadena, CA

(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL

The following tables set forth certain additional information with respect to the fund s portfolio managers for the fund. Unless noted otherwise, all information is provided as of December 31, 2009.

Other Accounts Managed by Portfolio Managers

The table below identifies the number of accounts (other than the fund) for which the fund s portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories: registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

Portfolio Manager(s)	**Registered Investment Companies**	**Other Pooled Investment Vehicles**	**Other Accounts**
S. Kenneth Leech	108 registered investment companies with $184.0 billion in total assets under management	229 Other pooled investment vehicles with $107.7 billion in assets under management*	832 Other accounts with $190.2 on in total assets under management**
Stephen A. Walsh	108 registered investment companies with $184.0 billion in total assets under management	229 Other pooled investment vehicles with $107.7 billion in assets under management*	832 Other accounts with $190.2 billion in total assets under management**
Keith J. Gardner	5 registered investment companies with $1.2 billion in total assets under	6 Other pooled investment vehicles with $0.6 billion in assets under	2 Other accounts with $0.1 billion in total assets under

management	management***	management

Michael C. Buchanan	17 registered investment Companies with $9.6 billion in total assets Under management	8 Other pooled investment vehicles with $4.0 billion in assets under management	14 Other accounts with $1.9 billion in total assets under management
Peter H. Stutz	3 registered investment Companies with $1.0 billion in total assets Under management	1 Other pooled investment vehicle with $4 million in assets under management	13 Other accounts with $2.5 billion in total assets under management***
Paul E. Wynn	1 registered investment Company with $38 million in total assets Under management	4 Other pooled investment vehicles with $0.4 billion in assets under management	27 Other accounts with $8.9 billion in total assets under management****

* Includes 6 accounts managed, totaling $1.1 billion, for which advisory fee is performance based.

** Includes 93 accounts managed, totaling $24.2 billion, for which advisory fee is performance based.

*** Includes 2 accounts managed, totaling $0.5 billion, for which advisory fee is performance based.

**** Includes 3 accounts managed, totaling $0.6 billion, for which advisory fee is performance based.

The numbers above reflect the overall number of portfolios managed by employees of Western Asset Management Company (Western Asset). Mr. Leech and Mr. Walsh are involved in the management of all the Firm s portfolios, but they are not solely responsible for particular portfolios. Western Asset s investment discipline emphasizes a team approach that combines the efforts of groups of specialists working in different market sectors. They are responsible for overseeing implementation of Western Asset s overall investment ideas and coordinating the work of the various sector teams. This structure ensures that client portfolios benefit from a consensus that draws on the expertise of all team members.

(a)(3): *Portfolio Manager Compensation*

With respect to the compensation of the portfolio managers, Western Asset s compensation system assigns each employee a total compensation range, which is derived from annual market surveys that benchmark each role with its job function and peer universe. This method is designed to reward employees with total compensation reflective of the external market value of their skills, experience, and ability to produce desired results. Standard compensation includes competitive base salaries, generous employee benefits, and a retirement plan.

In addition, the subadviser s employees are eligible for bonuses. These are structured to closely align the interests of employees with those of the subadviser, and are determined by the professional s job function and pre-tax performance as measured by a formal review process. All bonuses are completely discretionary. The principal factor considered is a portfolio manager s investment performance versus appropriate peer groups and benchmarks (*e.g.*, a securities index and with respect to a fund, the benchmark set forth in the fund s Prospectus to which the fund s average annual total returns are compared or, if none, the benchmark set forth in the fund s annual report). Performance is reviewed on a 1, 3 and 5 year basis for compensation with 3 years having the most emphasis. The subadviser may also measure a portfolio manager s pre-tax investment performance against other benchmarks, as it determines appropriate. Because portfolio managers are generally responsible for multiple accounts (including the funds) with similar investment strategies, they are generally compensated on the performance of the aggregate group of similar accounts, rather than a specific account. Other factors that may be considered when making bonus decisions include client service, business development, length of service to the subadviser, management or supervisory responsibilities, contributions to developing business strategy and overall contributions to the subadviser s business.

Finally, in order to attract and retain top talent, all professionals are eligible for additional incentives in recognition of outstanding performance. These are determined based upon the factors described above and include Legg Mason stock options and long-term incentives that vest over a set period of time past the award date.

Potential Conflicts of Interest

Conflicts of Interest

The manager, subadvisers and portfolio managers have interests which conflict with the interests of the fund. There is no guarantee that the policies and procedures adopted by the manager, the subadvisers and the fund will be able to identify or mitigate these conflicts of interest.

Some examples of material conflicts of interest include:

Allocation of Limited Time and Attention. A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. A portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those funds and accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. Such a portfolio manager may make general determinations across multiple funds, rather than tailoring a unique approach for each fund. The effects of this conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

Allocation of Limited Investment Opportunities; Aggregation of Orders. If a portfolio manager identifies a limited investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit the fund s ability to take full advantage of the investment opportunity. Additionally, a subadviser may aggregate transaction orders for multiple accounts for purpose of execution. Such aggregation may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. In addition, a subadviser s trade allocation policies may result in the fund s orders not being fully executed or being delayed in execution.

Pursuit of Differing Strategies. At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts. For example, a portfolio manager may determine that it would be in the interest of another account to sell a security that the fund holds long, potentially resulting in a decrease in the market value of the security held by the fund.

Cross Trades. Portfolio managers may manage funds that engage in cross trades, where one of the manager s funds or accounts sells a particular security to another fund or account managed by the same manager. Cross trades may pose conflicts of interest because of, for example, the possibility that one account sells a security to another account at a higher price than an independent third party would pay or otherwise enters into a transaction that it would not enter into with an independent party, such as the sale of a difficult-to-obtain security.

Selection of Broker/Dealers. Portfolio managers may select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide subadvisers with brokerage and research services, These services may be taken into account in the selection of brokers and dealers whether a broker is being selected to effect a trade on an agency basis for a commission or (as is normally the case for the funds) whether a dealer is being selected to effect a trade on a principal basis. This may result in the payment of higher brokerage fees and/or execution at a less favorable price than might have otherwise been available. The services obtained may ultimately be more beneficial to certain of the manager s funds or accounts than to others (but not necessarily to the funds that pay the increased commission or incur the less favorable execution). A decision as to the selection of brokers and dealers could therefore yield disproportionate costs and benefits among the funds and/or accounts managed.

Variation in Financial and Other Benefits. A conflict of interest arises where the financial or other benefits available to a portfolio manager differ among the funds and/or accounts that he or she manages. If the amount or structure of the investment manager s management fee and/or a portfolio manager s compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. Similarly, the desire to maintain assets under management or to enhance the portfolio manager s performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager. A portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such funds and/or accounts. Also, a portfolio manager s or the manager s or a subadviser s desire to increase assets under management could influence the portfolio manager to keep a fund open for new investors without regard to potential benefits of closing the fund to new investors. Additionally, the portfolio manager might be motivated to favor funds and/or accounts in which he or she has an ownership interest or in which the investment manager and/or its affiliates have ownership interests. Conversely, if a portfolio manager does not personally hold an investment in the fund, the portfolio manager s conflicts of interest with respect to the fund may be more acute.

Related Business Opportunities. The investment manager or its affiliates may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of funds and/or accounts that provide greater overall returns to the investment manager and its affiliates.

(a)(4): *Portfolio Manager Securities Ownership*

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of December 31, 2009.

Portfolio Manager(s)	**Dollar Range of Portfolio Securities Beneficially Owned**
S. Kenneth Leech	A
Stephen A. Walsh	F
Keith J. Gardner	D
Michael C. Buchanan	A
Peter H. Stutz	C
Paul E. Wynn	A

Dollar Range ownership is as follows:

A: none

B: $1 - $10,000

C: 10,001 - $50,000

D: $50,001 - $100,000

E: $100,001 - $500,000

F: $500,001 - $1 million

G: over $1 million

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers

None.

Item 10. Submission of Matters to a Vote of Security Holders

There have been no material changes to the procedures by which shareholders may recommend nominees to the Registrant s Board of Trustees that have been implemented since the Registrant last provided disclosure in response to the requirements of this Item 10.

Item 11. Controls and Procedures

(a) The Registrant s principal executive and principal financial officers have concluded, based on their evaluation of the Registrant s disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the Registrant s disclosure controls and procedures are reasonably designed to ensure that information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the required time periods in the SEC s rules and forms and that information required to be disclosed by the Registrant in the reports that it files or submits on Form N-CSR is accumulated and communicated to the Registrant s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes in the Registrant s internal control over financial reporting during the Registrant s second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant s internal control over financial reporting

Item 12. Exhibits

(a)(1) Code of Ethics subject to the disclosure required by Item 2 filed as an exhibit hereto.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 filed as an exhibit hereto.

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 filed as an exhibit hereto.

(c) Proxy Voting Policies and Procedures pursuant to the disclosure required by Item 7 filed as an exhibit hereto

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this Report to be signed on its behalf by the undersigned, there unto duly authorized.

Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

By: /s/ R. Jay Gerken
R. Jay Gerken
Trustee and President
Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

Date: March 4, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ R. Jay Gerken
(R. Jay Gerken)
Trustee and President
Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

Date: March 4, 2010

By: /s/ Frances M. Guggino
(Frances M. Guggino)
Treasurer and Principal Financial and Accounting Officer
Western Asset/Claymore Inflation-Linked Opportunities & Income Fund

Date: March 4, 2010