

# 1999 Annual Report

Year Ended January 31, 1999



**Technology Products and  
Services Worldwide**



**T**ech Data Corporation, founded in 1974, is a leading full-line distributor of technology products worldwide. The Fortune 500 company and its subsidiaries operate in over 30 countries, serving more than 100,000 resellers in the United States, Canada, the Caribbean, Latin America, Europe and the Middle East. In addition to distributing more than 75,000 products from over 1,000 manufacturers and publishers, Tech Data provides extensive pre- and post-sale training, service and support, as well as high-quality configuration and assembly services and a full range of electronic commerce solutions.

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**integrity**

The foundation of our business is based upon integrity. All interactions with customers, vendors, suppliers, shareholders and fellow employees will be conducted with integrity and mutual respect.

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**employees**

Our employees make the difference! We will invest in the development of our employees and provide a professionally challenging and rewarding environment.

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**partners**

Strategic business partnerships with customers, vendors and suppliers produce benefits for all of our business partners. We will conduct our business in a manner which supports our business partners.

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**shareholders**

Shareholders deserve a reasonable return on their investment in our company. We are focused on profitability in order to attract sufficient capital for our continued growth.

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**change**

Our business continues to evolve based on ever-changing market conditions. Our willingness to embrace change will be key to our success.

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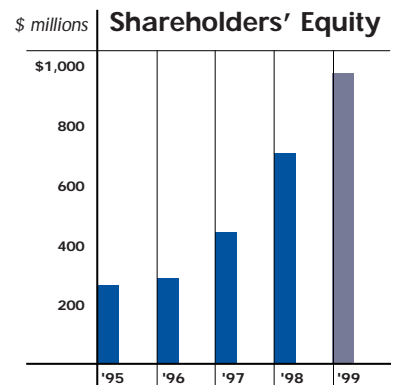
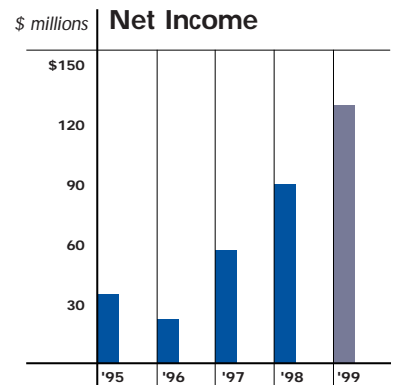
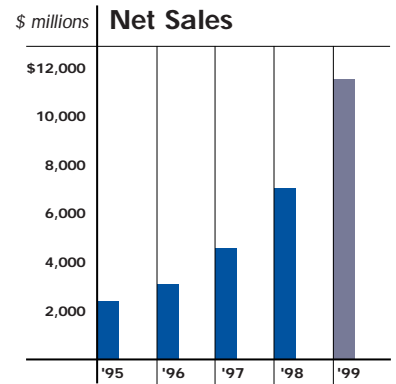
## Contents

Financial highlights	i.
Letter to shareholders	ii.
Description of business	2.
Executive officers	8.
Stock price history	10.
Selected financial data	11.
Management's discussion and analysis of financial condition and results of operations	12.
Report of independent certified public accountants	19.
Report of management	19.
Consolidated financial statements	20.
Notes to consolidated financial statements	23.

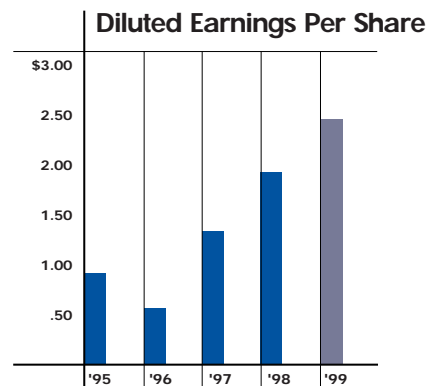


**Tech Data Corporation and Subsidiaries**  
(In thousands, except per-share data)

For the year ended January 31:	1999	1998	1997	1996	1995
Net sales	\$11,528,999	\$ 7,056,619	\$ 4,598,941	\$ 3,086,620	\$ 2,418,410
Gross profit	727,873	465,746	321,781	219,394	199,288
Net income	128,952	89,485	56,973	21,541	34,912
Net income per common share:					
Basic	2.59	2.00	1.39	.57	.92
Diluted	2.47	1.92	1.35	.56	.91



At year end:	1999	1998	1997	1996	1995
Working capital	\$ 725,057	\$ 537,381	\$ 351,993	\$ 201,704	\$ 182,802
Total assets	3,844,987	2,185,383	1,545,294	1,043,879	784,429
Shareholders' equity	967,291	702,588	438,381	285,698	260,826



## To our shareholders:

### Steven A. Raymund

Chairman of the Board of Directors  
and Chief Executive Officer



The past year was a busy and exciting one for Tech Data. It was both a year of dramatic global growth for the company and of many changes within our industry. Our agile response to these evolving market conditions — the new requirements of our customers and vendor partners — significantly contributed to our record-breaking financial performance. ♦ For the year ended January 31, 1999, net sales increased 63.4% to \$11.5 billion, up from \$7.1 billion the previous year, and net income grew 44.1% to \$129.0 million, or \$2.47 per diluted share, compared with \$89.5 million, or \$1.92 per diluted share, in the prior year. This includes a pre-tax gain of \$15.7 million related to the July 1998 sale of our former German subsidiary, Macrotron AG. Excluding the effect of acquisitions, sales growth rates for the fiscal year were approximately 17% in the U.S., 27% in Europe and 15% in other international markets. Our record results were particularly remarkable considering our ability to achieve U.S. sales without increasing our domestic

employee base. We continually drove down selling, general and administrative expenses as a percentage of sales, with our fourth quarter at just 4.13%. ♦ Tech Data has never been in a better position relative to competitors. Although margins have been under intense pressure, we are emerging as a stronger company while others now face significant challenges. There is no doubt that Tech Data will be among the victors as the industry further consolidates, with weaker players pursuing suitors, alternative business models or perhaps even exiting the business altogether. ♦ We anticipated many of the changes affecting our market over the past year and took steps early in 1998 that helped mitigate the impact of new terms and conditions introduced by key vendor partners. We managed inventory levels with unparalleled precision in this era of reduced price protection. We responded aggressively to competitor pricing strategies aimed at taking market share, and we introduced the year's most innovative

service: *FactoryDirect* shipping from distribution centers co-located within the manufacturing facilities of Compaq and IBM. ♦ A recent cover story in *Computer Reseller News*, our industry's leading trade publication, declared co-location the "most efficient" means of shipping computers, inspiring an altogether new business concept: *integrated distribution*. ♦ You'll learn more about *FactoryDirect* developments later in this letter, but first let's review some of the other strategies we implemented in the past year to ensure continuing growth and profitability — as well as continuing value to you, our shareholders. ♦ Our international expansion strategy advanced exponentially with the July 1998 acquisition of a majority interest in Munich-based Computer 2000 AG, Europe's leading technology distributor, operating in more than 30 nations including four Latin American countries. With the purchase of Computer 2000, we opted to divest our interest in our 1997 acquisition, Munich-based subsidiary Macrotron



*Munich-based Computer 2000 AG plays a vital role in Tech Data's global strategy.*

AG, due to market overlap in Germany. We completed that sale in July 1998, realizing a \$15.7 million pre-tax gain. Computer 2000's financial results were included in the second half of our fiscal year, and the company has already contributed substantially to overall revenue and earnings. International sales accounted for approximately 45% of our business, up from just approximately 23% the prior year. ♦ I have spent most of the past year residing in Europe to help guide the integration of Tech Data and Computer 2000. It's been a great experience and an education on how to build further on Computer 2000's achievements. In conjunction with this strategy, we appointed former managing director of Computer 2000 Iberia, Néstor Cano, to executive vice president of U.S. sales and marketing. In this newly created

**COMPUTER  
2000**

Tech Data has never been in a better position relative to competitors. Although margins have been under intense pressure, we are emerging as a stronger company while others now face significant challenges.

We are not only becoming a premier provider of products and services to the online reseller channel, we are doing business with thousands of other resellers via our Web site, which approached \$2 million in average daily sales in the fourth quarter.

position, Néstor brings additional depth to our excellent executive management team at corporate headquarters. At Computer 2000, his achievements included establishing a dominant market position in Spain and Portugal. ♦ Gerald Labie, formerly president and managing director of European operations, has returned to the States as senior vice president of U.S. marketing, replacing Peg Caldwell, who retired in January after an illustrious 33-year industry career. John Lochow, previously Tech Data's senior vice president and chief information officer, is taking on additional responsibilities as executive vice president of IT and logistics.

positioned within this booming market. We are not only becoming a premier provider of products and services to the online reseller channel, we are doing business with thousands of other resellers via our Web site, which approached \$2 million in average daily sales in the fourth quarter. ♦ Using our Web Customization Toolkit, more than 200 resellers are also conducting business electronically with their end users — yet another example of our Internet ingenuity at work. Our entire electronic catalog is made available this way and through API connections that streamline orders

from reseller Web sites directly to Tech Data. Late last year we announced another industry-first: our electronic software distribution (ESD) initiative, which allows resellers

## A thriving Internet business

As you probably observed, 1998 saw an impressive uptick in both consumer and business buying from Internet resellers. Tech Data is ideally





and vendors to easily access software titles directly from a secure location on our Web site. Our breakthroughs also included the release of a new Web-based configuration tool, TDxpert, which allows resellers to easily review all available component options and quickly check compatibility for custom system building. This too was an industry first, being the first tool of its kind to support the channel assembly programs of leading computer manufacturers. ♦ Our Web-based commerce services, online interactive content and information delivery options comprise only one side of the Internet equation. Internet plumbing products and enabling technologies that we distribute represent another driver of current and future growth. Computer telephony, thin client/server solutions, imaging and document management, storage area networks, and many other emerging technologies are also among our growing new business opportunities. Our ability to keep



*TD Ensemble configuration and assembly services offer the capacity to build 80,000 computer systems monthly.*

pace with the trends and constantly revitalize our product line further solidifies Tech Data's industry position.

## Building on the past and the present

Last year Tech Data made significant strides in the computer assembly business. Although manufacturer channel assembly programs have fallen short of expectations, we have been able to steadily grow our build-to-order volume with each of the industry leaders in the systems market: Compaq, Hewlett-Packard and IBM. With the opening of our state-of-the-art configuration and assembly facility in Swedesboro, N.J., last year, we increased our total assembly capacity to 80,000 systems monthly. This capacity is also



*Tech Data's 435,000-square-foot distribution center in Swedesboro, N.J., represents the state of the art in logistics and automation.*

We see a new paradigm emerging in lockstep with our strategic direction. Our logistics expertise and expansive breadth of services are taking center stage.

being used to support our new “white box” line of desktop computers, workstations and servers. These computers were introduced for resellers who prefer unbranded systems, which we can also private label upon request. Nonbranded products collectively outsell each of the major brands, according to industry research. With our TDEnsemble services, Tech Data can now configure and assemble unbranded or branded systems in 48 to 72 hours — a significant advantage over timeframes of manufacturers who sell their systems directly to

end users. ♦ The direct model also fails to fully leverage the services and sales potential of today’s value-added resellers who do business with Tech Data. Although direct-only manufacturers often engage resellers, the relationships are not as strong as they are through distributors with dedicated channel programs. We acknowledged the efficiencies of the direct model and embarked on a response last year that capitalizes on its strengths without sacrificing inherent reseller value: *FactoryDirect* shipping. It’s become the talk of our industry. Among the more recent developments, Compaq selected Tech Data and one other distributor to apply this innovative shipping approach to its Prosignia product line, which was initially launched with minimal distributor involvement. ♦ At the time Compaq announced its new *PartnerDirect* strategy, Tech Data was completing the first year of our *FactoryDirect* co-location





program with Compaq in Houston, TX and IBM in Research Triangle Park, N.C. At both facilities we established our Private Label Delivery service in which we customize shipping labels and packing list documentation with reseller logos and other personalized touches. This always keeps the reseller's identity in front of the end-user customer. ♦ With FactoryDirect, Tech Data gained the ability to ship systems fresh from the assembly line and remove up to two weeks from traditional delivery cycles. Considering the rapid pace of innovation in the systems category, FactoryDirect shipping gives us a significant competitive advantage. We've even taken the concept a step further. Now, with FactoryDirectPlus, we've put our own configuration and assembly specialists on site at the Compaq and IBM facilities to incorporate virtually any component, software or other product required in a solution. With over 75,000 products shipped by Tech Data across the world, it's easy to see the

power of this capability — a new advantage that the other direct approach cannot match in versatility or leveraging of the reseller channel. We believe our implementation of channel assembly combines with FactoryDirect options to fully optimize delivery of customized systems.

## The new logistics paradigm

Technology distribution went through an exciting, albeit challenging, transformation last year. Only the most nimble and best-capitalized players are realistically positioned for long-term prosperity. We see a new paradigm emerging in lockstep with our strategic direction. Our logistics expertise and expansive breadth of services are taking center stage. ♦ The traditional reseller channel remains strong, but it too is going through changes — changes that we believe

### Rankings, Honors and Awards

- ♦ **No. 145 on Fortune 500**
- ♦ **No. 47 in Fortune 500** 10-year return to investors
- ♦ **No. 22 in Fortune 500** earnings-per-share growth over the past 10 years
- ♦ **No. 13 in Fortune 500** increase in year-over-year profits, multi-industry wholesalers category
- ♦ **Novell's 1999 Service Excellence Award** for exceptional sales and service support
- ♦ Named "**Most Preferred Distributor**" for peripherals, mass storage and networking products in *Computer Reseller News*' 1998 Preferred Distributor Study
- ♦ Named to **ComputerWorld's 1998 Premier 100** for electronic commerce innovation
- ♦ Named to **Business 2.0 magazine's 1999 Business 2.0 Hundred**, recognizing companies with significant Web-based strategies and revenues

Fiscal 1999 was a year  
of record-breaking  
financial performance:

- ◆ Sales – \$11.5 billion
- ◆ Net Income – \$129 million
- ◆ Shareholders' Equity at  
year end – \$967 million

favor Tech Data. Many of the same issues facing manufacturers and publishers apply to resellers, who also want to reduce costs through outsourcing agreements with Tech Data. Our infrastructure is being leveraged in more ways than ever. ◆ In the past, technology distributors like Tech Data were labeled as the “middleman,” perceived primarily as box movers with little added value. That view was probably fairly accurate when we evolved from a reseller business model into wholesale distribution in the 1980s. Over the past decade we became much more than a distributor. Besides serving as the

reseller's one-stop source for the most popular technology products, we are now an instrumental provider of credit, pre- and post-sale technical support, training, configuration and assembly, electronic commerce and other invaluable services. ◆ In essence, as we now celebrate our 25th year in business, it's safe to say we are squarely in the middle: We're in the middle of more opportunity than we've ever seen. We hope you're there with us as a current or future investor. The center of the global technology logistics supply chain is a good place to be.



**Steven A. Raymund**  
Chairman of the Board of Directors  
and Chief Executive Officer

May 3, 1999



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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

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(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the fiscal year ended January 31, 1999

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-14625

**TECH DATA CORPORATION**

(Exact name of registrant as specified in its charter)

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**Florida**  
(State or other jurisdiction  
of incorporation or organization)

**No. 59-1578329**  
(I.R.S. Employer Identification Number)

**5350 Tech Data Drive, Clearwater, FL**  
(Address of principal executive offices)

**33760**  
(Zip Code)

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**Registrant's telephone number including area code: (727) 539-7429**

**Securities registered pursuant to Section 12(g) of the Act:**

Common stock, par value \$.0015 per share.

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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-K or any amendment to this Form 10-K.

Aggregate market value of the voting stock held by non-affiliates of the registrant as of March 31, 1999: \$1,080,900,000

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at March 31, 1999</u>
Common stock, par value \$.0015 per share	51,139,048

**DOCUMENTS INCORPORATED BY REFERENCE**

The registrant's Proxy Statement for use at the Annual Meeting of Shareholders on June 22, 1999 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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## PART I

### ITEM 1. *Business*

#### Overview

Tech Data Corporation (“Tech Data” or the “Company”) was incorporated in 1974 to market data processing supplies such as tape, disk packs, and custom and stock tab forms for mini and mainframe computers directly to end users. In 1984, the Company began marketing certain of its products to the newly emerging market of microcomputer dealers and had withdrawn entirely from end-user sales, broadened its product line to include hardware products, and completed its transition to a wholesale distributor. The Company has since continually expanded its product lines, customer base and geographical presence.

On May 31, 1989, the Company entered the Canadian market through the acquisition of a distributor subsequently named Tech Data Canada Inc., (“Tech Data Canada”). Tech Data Canada serves customers in all Canadian provinces.

On March 24, 1994, the Company completed the non-cash exchange of 1,144,000 shares of its common stock for all of the outstanding capital stock of Softmart International, S.A. (subsequently named Tech Data France, SNC) (“Tech Data France”), a privately-held distributor of personal computer products based in Paris, France. Tech Data France is one of the largest wholesale distributors of microcomputer products in France, representing leading manufacturers and publishers such as Compaq, Hewlett-Packard, IBM, Lotus and Microsoft.

To complement its Miami-based Latin American export business, the Company opened a 33,000 square-foot distribution center near São Paulo, Brazil in February 1997.

Tech Data expanded its European presence by acquiring a controlling interest in Macrotron AG (“Macrotron”), a leading publicly held distributor of personal computer products based in Munich, Germany, on July 1, 1997. Macrotron’s product line included such leading vendors as 3Com, Canon, Compaq, Corel, Epson, Hewlett-Packard, IBM, Intel, Microsoft, Sony and Toshiba.

Approximately one year later, in July 1998, Tech Data completed the acquisition of 83% of the voting common stock of Computer 2000 AG (“Computer 2000”), Europe’s leading technology products distributor. With a presence in significant geographic markets in Europe, the Middle East and Latin America, the purchase of Computer 2000 propelled Tech Data’s reach into over 30 countries worldwide. As a result of this initial purchase, subsequent tender offer, open market purchases and private purchase transactions, the Company currently owns approximately 99.3% of Computer 2000’s outstanding stock. Computer 2000’s product line includes such leading vendors as Apple, Cisco, Compaq, Epson, Hewlett-Packard, IBM, Intel, Microsoft, 3Com, and Toshiba.

With technology reseller customers in Germany, Switzerland and Austria, Computer 2000 had significant market overlap with Macrotron. As a result of this overlap, as well as the challenge of integrating two large competitors in the Germanic market, Tech Data chose to sell its majority interest in Macrotron effective July 1, 1998. Tech Data owned 99% and 91% of Macrotron’s outstanding common and preferred stock, respectively, at the time of the sale and recorded a \$15.7 million pretax gain on the transaction (see Note 2 of Notes to Consolidated Financial Statements).

Tech Data Corporation is the world’s second largest distributor of microcomputer hardware and software products to value-added resellers (“VARs”), corporate resellers, retailers, direct marketers and internet resellers (collectively with VARs, “customers”). Tech Data distributes products throughout the United States, Canada, the Caribbean, Latin America, Europe and the Middle East. The Company purchases its products directly from more than 1,000 manufacturers of microcomputer hardware and publishers of software in large quantities, maintains a stocking inventory of more than 75,000 products and sells to an active base of over 100,000 customers. The Company’s broad assortment of vendors and products meets the customers’ need for a cost effective link to those vendors’ products offered through a single source.

The Company provides its customers with leading products including systems, peripherals, networking, and software, which accounted for 25%, 42%, 18% and 15%, respectively, of sales in fiscal 1999. The Company offers products from manufacturers and publishers such as Cisco, Compaq, Creative Labs, Epson, Hewlett-Packard, IBM, Intel, Iomega, Microsoft, Nortel Networks, Novell, Okidata, Symantec, 3Com, Toshiba, Viewsonic and Western Digital. The Company generally ships products the same day the orders are received from regionally located distribution centers. The customers are provided with a high-level of service through the Company's pre- and post-sale technical support, electronic commerce tools (including on-line order entry, product configuration services and electronic data interchange ("EDI") services), customized shipping documents and flexible financing programs.

## **Industry**

The wholesale distribution model, like that provided by the Company, has proven to be well-suited for both manufacturers and publishers of microcomputer products ("vendors") and resellers of those products. The large number and diversity of resellers makes it cost efficient for vendors to rely on wholesale distributors which can leverage distribution costs across multiple vendors who outsource a portion of their distribution, credit, marketing and support services. Similarly, due to the large number of vendors and products, resellers often cannot or choose not to establish direct purchasing relationships. Instead they rely on wholesale distributors, such as Tech Data, which can leverage purchasing costs across multiple resellers to satisfy a significant portion of their product procurement and delivery, financing, marketing and technical support needs.

The Company believes that the rates of growth of the wholesale distribution segment of the microcomputer industry and the Company continue to outpace that of the microcomputer industry as a whole for three principal reasons. First, as a result of the use of open systems and off-the-shelf components, hardware and software products are increasingly viewed as commodities. The resulting price competition coupled with rising selling costs and shorter product life cycles, make it difficult for manufacturers and publishers to efficiently sell directly to resellers and has prompted them to rely on more cost-efficient methods of distribution. Second, resellers are increasingly relying on wholesale distributors such as Tech Data for product availability and flexible financing alternatives rather than stocking large inventories themselves and maintaining credit lines to finance working capital needs. Third, restrictions by certain major manufacturers on sales through wholesale distributors were gradually eased commencing in 1991. Since the beginning of 1995, the Company has been able to sell certain of those manufacturers' products under more competitive terms and conditions ("open-sourcing"). Historically, these previously restricted product lines were sold by master resellers, or aggregators, (whose business model was similar to wholesale distributors, but focused on relatively few product lines) to a network of franchise dealers. Open-sourcing has virtually eliminated any advantage that these aggregators enjoyed as a result of the exclusive arrangements. In addition, consolidation in the wholesale distribution industry continues as economies of scale and access to financial resources become more critical. Larger distributors, like the Company, that have been able to utilize economies of scale to lower costs and pass on the savings to its customers in the form of reduced prices have continued to take market share.

A number of emerging industry trends are providing new opportunities and challenges for Tech Data. The advent of the direct sales model and other industry developments has led many manufacturers and distributors to reevaluate their business models. Leading systems manufacturers are introducing new policies, processes, terms and conditions as part of their overall effort to reduce costs and improve efficiency. Some manufacturers are moving toward "assemble-to-order" business models instead of the traditional "build-to-forecast" approach that requires forecasting market demand and manufacturing a broad range of systems based on these projections. Under this model, systems are assembled upon demand and shipped from distribution centers across the world. The success of this new model will be driven by the extent to which reseller and manufacturer partners embrace the model and choose to make changes to their traditional way of doing business.

Consolidation represents a major industry trend in recent years as many distributors have either exited the market or been purchased by larger players. The Company believes that the dynamics of the wholesale distribution industry favor the largest distributors, such as Tech Data, which have access to financing and are able to achieve economies of scale and breadth of geographic coverage.



As resellers continue to seek ways to reduce costs and improve efficiencies, distributors are responding with a variety of new value-added services. Tech Data's ability to provide a "virtual warehouse" of products for resellers means that they no longer need to hold inventory. Configuration and assembly services can be employed to customize systems. Private Label Delivery can ensure the product arrives at the customer as if it was shipped directly from the reseller. The emergence of the Internet, and consequently Internet resellers, has created one of the industry's fastest-growing business segments. These resellers, which sell mainly on price and availability, present a new set of challenges such as advanced use of electronic commerce capabilities.

The increasing utilization of electronic ordering and information delivery systems, including the ability to transact business over the World Wide Web has had and is expected to continue to have a significant impact on the cost efficiency of the wholesale distribution industry. Distributors, such as Tech Data, with the financial and technical resources to develop, implement and operate state-of-the-art management information systems have been able to reduce both their customers' and their own transaction costs through more efficient purchasing and lower selling costs.

In summary, microcomputer distribution is experiencing rapid growth and consolidation, creating an environment in which market share and the resulting cost efficiencies are critical.

### **Business Strategy**

Tech Data, as the world's second largest distributor of microcomputer products, believes that its infrastructure and the size of its operation position it to gain share in its current markets as well as continue its expansion into new geographic markets. The Company's size and performance have allowed it to make significant investments in personnel, management information systems, distribution centers and other capital resources. The Company provides a broad array of products and services for its resellers, which allows them to satisfy their needs from a single source. The Company's competitive advantage is the result of its low cost structure, investment in sophisticated management information systems and its access to capital to finance growth.

To maintain and enhance its leadership position in wholesale distribution, the Company's business strategy includes the following main elements:

***Maintain low cost and efficient operations.*** The Company has pursued a strategy of profitable revenue growth by providing its customers with the benefit of operating efficiencies achieved through centralized management and control, stringent cost controls and automation. The Company strictly controls selling, general and administrative expenses; utilizes its highly automated order placement and processing systems to efficiently manage inventory and shipments and to reduce transaction costs; and realizes economies of scale in product purchasing, financing and working capital management. The Company has been successful in reducing selling, general and administrative expenses as a percentage of net sales from 6.81% for the fiscal year ended January 31, 1992 to 4.27% for the fiscal year ended January 31, 1999.

***Leverage management information systems.*** In order to further improve its operating efficiencies and services to its resellers, the Company invested approximately \$30 million in a scaleable, state-of-the-art computer information system which was implemented in December 1994. This system, which currently supports the Company's U.S. and Canadian operations and Latin American export operations, provides the Company operating efficiencies and allows the Company to offer additional services such as expansion of its electronic commerce capabilities, including electronic data interchange and order entry over the Company's World Wide Web site. Electronic commerce generates significant cost savings and operational efficiencies for Tech Data and its customers. By the fourth quarter of fiscal 1999, approximately 25% of the Company's U.S. sales dollar volume originated from orders received electronically over the Company's World Wide Web site or other links such as EDI. The Company believes that growth in its electronic commerce capabilities will provide incremental economies of scale and further reduce transaction costs.

**Offer a broad and balanced product mix.** The Company offers its resellers a broad assortment of leading technology products. Currently, the Company offers more than 75,000 products from more than 1,000 manufacturers and publishers. By offering a broad product assortment, the Company can benefit from its resellers' objective to procure product more efficiently by reducing the number of their direct vendor relationships. The Company is continually broadening its product assortment to ensure it provides its customers with the latest technology products. The Company maintains a balanced product line of systems, peripherals, networking products and software to minimize the effects of fluctuation in supply and demand.

**Foster customer loyalty through superior customer service.** Tech Data's sales force provides superior customer service through a dedicated team approach in order to differentiate itself from its competitors and foster customer loyalty. The Company provides services such as flexible customer financing and credit programs, a suite of electronic commerce tools (including electronic order entry and access to product specifications), pre- and post-sale technical support, products configuration, customized shipping documents, flexible product return policies and customer education programs. The Company believes its strategy of not competing with its customer base also promotes customer loyalty.

**Broaden geographic coverage through international expansion.** The Company plans to take advantage of its strong financial position, vendor relationships and distribution expertise to continue to expand its business in the markets it currently serves and additional markets. The Company's expansion strategy focuses on identifying companies with significant market positions and quality management teams in markets where there is developed or emerging demand for microcomputer products. Following expansion into a new market, Tech Data enhances its market share by providing capital, adding new product lines, competitively pricing its products and delivering value-added services. The Company's operations have expanded from its North American focus to include Europe with the acquisition in 1994 of France's largest wholesale microcomputer distributor. In February 1997, the Company continued its international expansion through the development of an in-country subsidiary which stocks and distributes products in Brazil. The Company's purchase of Computer 2000 AG, Germany's largest distributor, in July 1998 established the Company as the leading European distributor, as well as strengthened its position in Latin America.

## **Vendor Relations**

The Company's strong financial and industry positions have enabled it to obtain contracts with most leading manufacturers and publishers. The Company purchases products directly from more than 1,000 manufacturers and publishers, generally on a nonexclusive basis. The Company's vendor agreements are believed to be in the form customarily used by each manufacturer and typically contain provisions which allow termination by either party upon 60 days notice. Generally, the Company's supplier agreements do not require it to sell a specified quantity of products or restrict the Company from selling similar products manufactured by competitors. Consequently, the Company has the flexibility to terminate or curtail sales of one product line in favor of another product line as a result of technological change, pricing considerations, product availability, customer demand and vendor distribution policies. Such agreements generally contain stock rotation and price protection provisions which, along with the Company's inventory management policies and practices, reduce the Company's risk of loss due to slow-moving inventory, vendor price reductions, product updates or obsolescence. Under the terms of many distribution agreements, suppliers will credit the distributor for declines in inventory value resulting from the supplier's price reductions if the distributor complies with certain conditions. In addition, under many such agreements, the distributor has the right to return for credit or exchange for other products a portion of those inventory items purchased, within a designated period of time. A supplier who elects to terminate a distribution agreement generally will repurchase from the distributor the supplier's products carried in the distributor's inventory. While the industry practices discussed above are sometimes not embodied in agreements and do not protect the Company in all cases from declines in inventory value, management believes that these practices provide a significant level of protection from such declines. No assurance can be given, however, that such practices will continue or that they will adequately protect the Company against declines in inventory value. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset Management."

Major computer systems manufacturers have begun to re-engineer their manufacturing processes whereby final assembly will be performed at the distribution level ("channel assembly") versus the current "build-to-forecast" methodology employed by these manufacturers. Tech Data expanded its TDEnsemble services over the past two years to include "assemble-to-order" capabilities on behalf of its manufacturing partners, in addition to resellers, seeking custom configuration of branded and unbranded systems. Tech Data was selected by Compaq, Hewlett-Packard and IBM to participate in their respective channel assembly initiatives. In addition to its own ISO 9002-certified centers in South Bend, Indiana and Swedesboro, New Jersey, Tech Data now offers custom-configuration at its *FactoryDirect* locations with Compaq in Houston, Texas and IBM in Research Triangle Park, North Carolina.

In addition to providing manufacturers and publishers with one of the largest bases of resellers in the United States, Canada, the Caribbean, Latin America, Europe and the Middle East, the Company also offers manufacturers and publishers the opportunity to participate in a number of special promotions, training programs and marketing services targeted to the needs of its resellers.

No single vendor accounted for more than 10% of the Company's net sales during fiscal 1999, 1998 or 1997, except sales of Compaq products which accounted for 13%, 13% and 12% of net sales in fiscal 1999, 1998 and 1997, respectively, and sales of Hewlett-Packard products which accounted for 18% and 13% of net sales in fiscal 1999 and 1998, respectively.

### **Customers, Products and Services**

The Company sells more than 75,000 microcomputer products including systems, peripherals, networking and software purchased directly from manufacturers and publishers in large quantities for sale to an active reseller base of more than 100,000 VARs, corporate resellers, direct marketers, retailers and Internet resellers.

The Company's VARs typically do not have the resources to establish a large number of direct purchasing relationships or stock significant product inventories. This market is attractive because VARs, which constituted approximately 56% of Tech Data's net sales in fiscal 1999, generally rely on distributors as their principal source of computer products and financing. Corporate resellers, retailers, direct marketers and internet resellers may establish direct relationships with manufacturers and publishers for their more popular products, but utilize distributors as the primary source for other product requirements and the alternative source for products acquired direct. The Company's Tech Data Elect Program provides cost-plus pricing on certain high volume products, primarily computer systems and printers, and other special terms to target corporate resellers. Corporate resellers constituted approximately 26% of the Company's net sales in fiscal 1999. Tech Data also has developed special programs to meet the unique needs of retail, direct marketers and internet resellers, which customers constituted approximately 18% of the Company's net sales in fiscal 1999. No single customer accounted for more than 5% of the Company's net sales during fiscal 1999, 1998 or 1997.

The Company pursues a strategy of continually expanding its product line to offer its customers a broad assortment of the latest technology products. From time to time, the demand for certain products sold by the Company exceeds the supply available from the manufacturer or publisher. The Company then receives an allocation of the products available. Management believes that the Company's ability to compete is not adversely affected by these periodic shortages and the resulting allocations.

Tech Data provides resellers a high-level of service through the Company's pre- and post-sale technical support, suite of electronic commerce tools (including on-line order entry and EDI services), customized shipping documents, product configuration services and flexible financing programs.

The Company delivers products throughout the United States, Canada, the Caribbean, Latin America, Europe and the Middle East from its 35 regionally located distribution centers. Locating distribution centers near its customers enables the Company to deliver products on a timely basis, thereby reducing customers' need to invest in inventory. See Item 2 - Properties for further discussion of the Company's locations and distribution centers.

## **Sales and Electronic Commerce**

Currently, the Company's sales force consists of approximately 2,000 field and inside telemarketing sales representatives. Field sales representatives are located in major metropolitan areas. Each field representative is supported by inside telemarketing sales teams covering a designated territory. The Company's team concept provides a strong personal relationship between representatives of the customers and Tech Data. Territories with no field representation are serviced exclusively by the inside telemarketing sales teams. Customers typically call their inside sales teams on dedicated toll-free numbers or contact the Company through various electronic methods to place orders. If the product is in stock and the customer has available credit, customer orders are generally shipped the same day from the distribution facility nearest the customer.

Increasingly, customers rely upon the Company's electronic ordering and information systems, in addition to product catalogs and frequent mailings as sources for product information, including prices. The Company's on-line computer system allows the inside sales teams to check for current stocking levels in each of the six United States distribution centers. Likewise, inside sales teams in Canada, the Caribbean, Europe, Latin America and the Middle East can check on stocking levels in their respective distribution centers. Through "Tech Data On-Line", the Company's proprietary electronic on-line system, U.S. customers can gain remote access to the Company's data processing system to check product availability and pricing and to place an order. Certain of the Company's larger customers have available EDI services whereby orders, order acknowledgments, invoices, inventory status reports, customized pricing information and other industry standard EDI transactions are consummated on-line which improves efficiency and timeliness for both the Company and the customers. In 1998, the Company launched order entry capability over the Company's World Wide Web site. By the fourth quarter of fiscal 1999 approximately 25% of the Company's U.S. sales dollar volume originated from orders received electronically and web orders were reaching approximately \$2 million per day.

The Company provides comprehensive training to its field and inside sales representatives regarding technical characteristics of products and the Company's policies and procedures. In addition, the Company's ongoing training program is supplemented by product seminars offered daily by manufacturers and publishers.

## **Competition**

The Company operates in a market characterized by intense competition. Competition within the industry is based on product availability, credit availability, price, delivery and various services and support provided by the distributor to the customer. The Company believes that it is equipped to compete effectively with other distributors in these areas. Major competitors include Ingram Micro, Inc. and CHS Electronics, Inc., as well as a variety of smaller distributors. The only competitor larger than the Company is Ingram Micro, Inc.

The Company also competes with manufacturers and publishers who sell directly to resellers and end-users. The Company nevertheless believes that in the majority of cases, manufacturers and publishers choose to sell products through distributors rather than directly because of the relatively small volume and high selling costs associated with numerous small orders. Management also believes that the Company's prompt delivery of products and efficient handling of returns provide an important competitive advantage over manufacturers' and publishers' efforts to market their products directly.

## **Employees**

On January 31, 1999, the Company had approximately 8,240 employees located as follows: United States – 3,600, Europe – 4,185, and all other regions - 455. Certain of the Company's employees in Europe are subject to collective bargaining or similar arrangements. The Company considers its relations with its employees to be good.

## Foreign and domestic operations and export sales

The Company operates predominantly in a single industry segment as a wholesale distributor of computer-based technology products and services. That is, the principal markets, products and services and methods of distribution from which each segment derives its revenues are essentially the same. The principal geographical areas in which the Company operates are the United States, Europe (including the Middle East) and Other International areas which include Canada, Brazil, Argentina, Chile, Peru, Uruguay, and export sales to Latin America and the Caribbean from the U.S. In 1999, 1998 and 1997, 45%, 23% and 15%, respectively, of the Company's sales were derived from sales outside of the U.S.

See Note 10 of Notes to Consolidated Financial Statements for further information regarding the geographical distribution of the Company's net sales, operating income and identifiable assets.

## Executive Officers

**Steven A. Raymund, Chairman of the Board of Directors and Chief Executive Officer**, age 43, has been employed by the Company since 1981, serving as Chief Executive Officer since January 1986 and as Chairman of the Board of Directors since April 1991. In 1998, Mr. Raymund was appointed Chairman of the Computer 2000 Management Board. He has a B.S. Degree in Economics from the University of Oregon and a Masters Degree from the Georgetown University School of Foreign Service.

**Anthony A. Ibargüen, President and Chief Operating Officer**, age 39, joined the Company in September 1996 as President of the Americas and was appointed President and Chief Operating Officer in March 1997. In 1998, Mr. Ibargüen was appointed to the Company's Board of Directors and to the Supervisory Board of Computer 2000. Prior to joining the Company, he was employed by ENTEX Information Services, Inc. from August 1993 to August 1996 as Executive Vice President of Sales and Marketing. From June 1990 to August 1993, he was employed by JWP, Inc. most recently as a Vice President. Mr. Ibargüen holds a B.S. Degree in Marketing from Boston College and a Masters in Business Administration Degree from Harvard University.

**Jeffery P. Howells, Executive Vice President and Chief Financial Officer**, age 42, joined the Company in October 1991 as Vice President of Finance and assumed the responsibilities of Chief Financial Officer in March 1992. In March 1993, he was promoted to Senior Vice President and Chief Financial Officer and was promoted to Executive Vice President and Chief Financial Officer in March 1997. In 1998, Mr. Howells was appointed to the Company's Board of Directors and to the Supervisory Board of Computer 2000. From June 1991 through September 1991 he was employed as Vice President of Finance of Inex Vision Systems. From July 1979 to May 1991 he was employed by Price Waterhouse., most recently as a Senior Audit Manager. Mr. Howells is a Certified Public Accountant and holds a B.B.A. Degree in Accounting from Stetson University.

**Néstor Cano, Executive Vice President of U.S. Sales and Marketing**, age 35, joined the Company in July 1998 as a result of the Company's acquisition of Computer 2000. In March 1999, he was appointed Executive Vice President of U.S. Sales and Marketing. Prior to his appointment in the U.S., Mr. Cano served in various management positions with Computer 2000 from 1989 to 1998, most recently as Regional Managing Director of Spain and Portugal. Mr. Cano holds an Engineering Degree from Barcelona University.

**H. John Lochow, Executive Vice President of Information Technology and Logistics**, age 46, joined the Company in February 1998 as Senior Vice President and Chief Information Officer and in February 1999 was promoted to Executive Vice President of Information Technology and Logistics. Prior to joining the Company, he served as Chief Information Officer at Bell Canada and Chief Executive of their international subsidiary Bell Sygma from 1996 to February 1998. From 1994 to 1996, he was employed by AT&T Capital Corporation as Vice President of Systems and New Business Development and from 1989 to 1994 he was employed by CNA Insurance Companies as Vice President of Systems. Mr. Lochow holds a B.A. Degree in Mathematics from Thomas Edison University.

**Peggy K. Caldwell, Senior Vice President of Marketing**, age 53, joined the Company in May 1992 and retired on January 31, 1999 after 7 years. Prior to joining the Company, she was employed by International Business Machines Corporation for 25 years, most recently serving in a variety of senior management positions in the National Distribution Division. Ms. Caldwell holds a B.S. Degree in Mathematics and Physics from Bucknell University. Ms. Caldwell retired from the Company on January 31, 1999.



**Timothy J. Curran, Senior Vice President of U.S. Sales**, age 47, joined the Company in April 1997. Prior to joining the Company, he was employed by Panasonic Communications and Systems Company (including various other Panasonic affiliates) from 1983 to 1997 serving in a variety of senior management positions. Mr. Curran holds a B.A. Degree in History from the University of Notre Dame and a Ph.D. in International Relations from Columbia University.

**Lawrence W. Hamilton, Senior Vice President of Human Resources**, age 41, joined the Company in August 1993 as Vice President of Human Resources and was promoted to Senior Vice President in March 1996. Prior to joining the Company, he was employed by Bristol-Myers Squibb Company from 1985 to August 1993, most recently as Vice President - Human Resources and Administration of Linvatec Corporation (a division of Bristol-Myers Squibb Company). Mr. Hamilton holds a B.A. Degree in Political Science from Fisk University and a Masters of Public Administration, Labor Policy from the University of Alabama.

**Gerald M. Labie, Senior Vice President of U.S. Marketing**, age 55, joined the Company in November 1997 as President and Managing Director of European Operations and was appointed Senior Vice President of U.S. Marketing in February 1999. Prior to joining the Company, he was employed by Corporate Software Inc. from 1989 to 1997, most recently serving in the role of Senior Vice President and General Manager, Europe. Mr. Labie holds a B.A. Degree from Alfred University.

**Yuda Saydun, Senior Vice President and General Manager - Latin America**, age 46, joined the Company in May 1993 as Vice President and General Manager - Latin America. In March 1997 he was promoted to Senior Vice President and General Manager - Latin America. Prior to joining the Company, he was employed by American Express Travel Related Services Company, Inc. from 1982 to May 1993, most recently as Division Vice President, Cardmember Marketing. Mr. Saydun holds a B.S. Degree in Political and Diplomatic Sciences from Universite Libre de Bruxelles and a Masters of Business Administration Degree, Finance/Marketing from U.C.L.A.

**Joseph B. Trepani, Senior Vice President and Corporate Controller**, age 38, joined the Company in March 1990 as Controller and held the position of Director of Operations from October 1991 through January 1995. In February 1995, he was promoted to Vice President and Worldwide Controller and to Senior Vice President and Corporate Controller in March 1998. Prior to joining the Company, Mr. Trepani was Vice President of Finance for Action Staffing, Inc. from July 1989 to February 1990. From 1982 to June 1989, he was employed by Price Waterhouse. Mr. Trepani is a Certified Public Accountant and holds a B.S. Degree in Accounting from Florida State University.

**Patrick O. Connelly, Vice President of Credit Services**, age 53, joined the Company in August 1994. Prior to joining the Company, he was employed by Unisys Corporation for nine years as Worldwide Director of Credit. Mr. Connelly holds a B.A. Degree in History and French from the University of Texas at Austin.

**Charles V. Dannewitz, Vice President of Taxes**, age 44, joined the Company in February 1995. Prior to joining the Company, he was employed by Price Waterhouse for 13 years, most recently as a Tax Partner. Mr. Dannewitz is a Certified Public Accountant and holds a B.S. Degree in Accounting from Illinois Wesleyan University.

**Arthur W. Singleton, Vice President, Treasurer and Secretary**, age 38, joined the Company in January 1990 as Director of Finance and was appointed Treasurer and Secretary in April 1991. In February 1995, he was promoted to Vice President, Treasurer and Secretary. Prior to joining the Company, Mr. Singleton was employed by Price Waterhouse from 1982 to December 1989. Mr. Singleton is a Certified Public Accountant and holds a B.S. Degree in Accounting from Florida State University.

**David R. Vetter, Vice President and General Counsel**, age 40, joined the Company in June 1993. Prior to joining the Company, he was employed by the law firm of Robbins, Gaynor & Bronstein, P.A. from 1984 to June 1993, most recently as a partner. Mr. Vetter is a member of the Florida Bar and holds a B.A. Degree in English and Economics from Bucknell University and a J.D. Degree from the University of Florida.

## ITEM 2. *Properties*

Tech Data's executive offices are located in Clearwater, Florida. The Company operates a total of 35 distribution centers to provide its customers timely delivery of products. These distribution centers are located in the following principal markets: U.S. – 6, Canada – 2, Latin America – 5, Europe – 21 and the Middle East - 1. In addition to the above distribution centers, the Company operates two distribution facilities in the U.S. which are located within the manufacturing facilities of Compaq and IBM in connection with the Company's *FactoryDirect* program (see Vendor Relations). The Company also operates training centers in nine cities in the U.S.

The facilities of the Company are substantially utilized, well maintained and are adequate to conduct the Company's current business.

## ITEM 3. *Legal Proceedings*

There are no material legal proceedings pending against the Company.

## ITEM 4. *Submission of Matters to a Vote of Security Holders*

There have been no matters submitted to a vote of security holders during the last quarter of the fiscal year ended January 31, 1999.

## PART II

## ITEM 5. *Market for the Registrant's Common Stock and Related Shareholder Matters*

The Company's common stock is traded on the Nasdaq Stock Market under the symbol TECD. The Company has not paid cash dividends since fiscal 1983. The Board of Directors does not intend to institute a cash dividend payment policy in the foreseeable future. The table below presents the quarterly high and low sales prices for the Company's common stock as reported by The Nasdaq Stock Market. The approximate number of shareholders as of January 31, 1999 was 30,000.

	Sales Price	
	High	Low
<b>Fiscal year 1999</b>		
Fourth quarter . . . . .	\$ 44 <sup>1</sup> / <sub>2</sub>	\$ 26 <sup>5</sup> / <sub>8</sub>
Third quarter . . . . .	53 <sup>1</sup> / <sub>8</sub>	36 <sup>3</sup> / <sub>4</sub>
Second quarter . . . . .	49 <sup>7</sup> / <sub>8</sub>	33 <sup>3</sup> / <sub>4</sub>
First quarter . . . . .	50 <sup>5</sup> / <sub>8</sub>	36 <sup>1</sup> / <sub>8</sub>
<b>Fiscal year 1998</b>		
Fourth quarter . . . . .	\$ 47 <sup>3</sup> / <sub>4</sub>	\$ 34 <sup>1</sup> / <sub>8</sub>
Third quarter . . . . .	51 <sup>3</sup> / <sub>4</sub>	36 <sup>1</sup> / <sub>4</sub>
Second quarter . . . . .	39 <sup>15</sup> / <sub>16</sub>	22 <sup>7</sup> / <sub>8</sub>
First quarter . . . . .	27 <sup>1</sup> / <sub>2</sub>	19 <sup>3</sup> / <sub>4</sub>

ITEM 6. *Selected Financial Data*

**FIVE YEAR FINANCIAL SUMMARY**  
(In thousands, except per share data)

	Year ended January 31,				
	1999	1998	1997	1996	1995
<b>Income statement data:</b>					
Net sales	<b>\$11,528,999</b>	\$ 7,056,619	\$ 4,598,941	\$ 3,086,620	\$ 2,418,410
Cost and expenses:					
Cost of products sold	<b>10,801,126</b>	6,590,873	4,277,160	2,867,226	2,219,122
Selling, general and administrative expenses	<b>492,542</b>	293,108	206,770	163,790	127,951
	<b>11,293,668</b>	6,883,981	4,483,930	3,031,016	2,347,073
Operating profit	<b>235,331</b>	172,638	115,011	55,604	71,337
Interest expense	<b>44,988</b>	29,908	21,522	20,086	13,761
Gain on the sale of Macrotron AG	<b>15,700</b>	—	—	—	—
Income before income taxes	<b>206,043</b>	142,730	93,489	35,518	57,576
Provision for income taxes	<b>76,215</b>	52,816	36,516	13,977	22,664
Income before minority interest	<b>129,828</b>	89,914	56,973	21,541	34,912
Minority interest	<b>876</b>	429	—	—	—
Net income	<b>\$ 128,952</b>	\$ 89,485	\$ 56,973	\$ 21,541	\$ 34,912
Net income per common share:					
Basic	<b>\$ 2.59</b>	\$ 2.00	\$ 1.39	\$ .57	\$ .92
Diluted	<b>\$ 2.47</b>	\$ 1.92	\$ 1.35	\$ .56	\$ .91
Weighted average common shares outstanding:					
Basic	<b>49,727</b>	44,715	40,870	37,846	37,758
Diluted	<b>54,161</b>	46,610	42,125	38,138	38,258
Dividends per common share	—	—	—	—	—
<b>Balance sheet data:</b>					
Working capital	<b>\$ 725,057</b>	\$ 537,381	\$ 351,993	\$ 201,704	\$ 182,802
Total assets	<b>3,844,987</b>	2,185,383	1,545,294	1,043,879	784,429
Revolving credit loans	<b>817,870</b>	540,177	396,391	283,100	304,784
Long-term debt	<b>308,521</b>	8,683	8,896	9,097	9,682
Shareholders' equity	<b>967,291</b>	702,588	438,381	285,698	260,826

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth the percentage of cost and expenses to net sales derived from the Company's Consolidated Statement of Income for each of the three most recent fiscal years.

	<u>Percentage of net sales</u>		
	<u>Year ended January 31,</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net sales . . . . .	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Cost and expenses:			
Cost of products sold . . . . .	<u>93.7</u>	93.4	93.0
Selling, general and administrative expenses . . . . .	<u>4.3</u>	<u>4.2</u>	<u>4.5</u>
	<u>98.0</u>	<u>97.6</u>	<u>97.5</u>
Operating profit . . . . .	<u>2.0</u>	2.4	2.5
Interest expense . . . . .	<u>.4</u>	.4	.5
Gain on sale of Macrotron AG . . . . .	<u>.2</u>	—	—
Income before income taxes . . . . .	<u>1.8</u>	2.0	2.0
Provision for income taxes . . . . .	<u>.7</u>	<u>.7</u>	<u>.8</u>
Income before minority interest . . . . .	<u>1.1</u>	1.3	1.2
Minority interest . . . . .	<u>—</u>	—	—
Net income . . . . .	<u>1.1%</u>	<u>1.3%</u>	<u>1.2%</u>

### Fiscal Years Ended January 31, 1999 and 1998

Net sales increased 63.4% to \$11.5 billion in fiscal 1999 compared to \$7.1 billion in the prior year. This increase is attributable to the acquisition of Computer 2000 AG ("Computer 2000"), as well as the addition of new product lines and the expansion of existing product lines. Sales for the fiscal year ended January 31, 1999 include six months of results for Computer 2000, in which the Company acquired a controlling interest in July 1998, and include six months of results for Macrotron AG, which was acquired in July 1997 and sold in July 1998. The Company's U.S., Europe and other international sales grew 17.0%, 295.5% and 32.9%, respectively, in fiscal 1999 compared to the prior year. The significant growth in the Company's international sales is attributable to the acquisition of Computer 2000. Excluding the effect of acquisitions and dispositions, sales growth rates in fiscal 1999 were approximately 17%, 27% and 15% in the U.S., Europe and other international areas, respectively. Total international sales in fiscal 1999 represent approximately 45% of consolidated net sales compared with 23% in the prior year.

The cost of products sold as a percentage of net sales increased from 93.4% in fiscal 1998 to 93.7% in fiscal 1999. This increase is a result of competitive market prices and the Company's strategy of lowering selling prices in order to gain market share and to pass on the benefit of operating efficiencies to its customers.

Selling, general and administrative expenses increased 68.0% from \$293.1 million in fiscal 1998 to \$492.5 million in fiscal 1999, and as a percentage of net sales increased to 4.3% in fiscal 1999 from 4.2% in the prior year. The increase in selling, general and administrative expenses is attributable to the acquisitions of Macrotron and Computer 2000, increases in amortization of intangibles as well as other operating expenses needed to support the increased volume of business.

As a result of the factors described above, operating profit in fiscal 1999 increased 36.3% to \$235.3 million, or 2.0% of net sales, compared to \$172.6 million, or 2.4% of net sales, in fiscal 1998. A factor contributing to the decrease in the operating profit margin from 2.4% in fiscal 1998 to 2.0% in fiscal 1999, was ongoing competitive pricing pressure experienced by the Company in its U.S. business. Additionally contributing to this decrease was the Company's more significant presence in Europe in fiscal 1999, principally as a result of the Computer 2000 acquisition. Operating margins in Europe are typically lower than the Company's U.S. business as a result of higher costs, partially offset by better asset turnover.

Interest expense increased due to an increase in the Company's average outstanding indebtedness related to funding the acquisition of Computer 2000, funding for continued growth and capital expenditures. The increase in interest expense was partially offset in fiscal 1999 by decreases in average short-term interest rates on the Company's floating rate indebtedness.

The Company's results of operations in fiscal 1999 include a pretax gain of \$15.7 million (\$9.6 million net of income taxes) related to the July 1998 sale of Macrotron AG.

The Company's average income tax rate was 37.0% for fiscal 1999 and fiscal 1998.

Net income in fiscal 1999 increased 44.1% to \$129.0 million, or \$2.47 per diluted share, compared to \$89.5 million, or \$1.92 per diluted share, in the prior year. Excluding the gain on the sale of Macrotron, net income increased 33.4% to \$119.4 million, or \$2.29 per diluted share.

### **Fiscal Years Ended January 31, 1998 and 1997**

Net sales increased 53.4% to \$7.1 billion in fiscal 1998 compared to \$4.6 billion in the prior year. This increase is attributable to the acquisition of Macrotron AG, the addition of new product lines and the expansion of existing product lines combined with an increase in the Company's market share. The Company's U.S. and international sales grew 39.1% and 134.6% respectively, in fiscal 1998 compared to the prior year. The significant growth in the Company's international sales is attributable to the acquisition of Macrotron AG, in which the Company acquired a controlling interest on July 1, 1997. The Company's international sales in fiscal 1998 were approximately 23% of consolidated net sales compared with 15% in the prior year.

The cost of products sold as a percentage of net sales increased from 93.0% in fiscal 1997 to 93.4% in fiscal 1998. This increase is a result of competitive market prices and the Company's strategy of lowering selling prices in order to gain market share and to pass on the benefit of operating efficiencies to its customers.

Selling, general and administrative expenses increased 41.8% from \$206.8 million in fiscal 1997 to \$293.1 million in fiscal 1998, and as a percentage of net sales decreased to 4.2% in fiscal 1998 from 4.5% in the prior year. This decline in selling, general and administrative expenses as a percentage of net sales is attributable to greater economies of scale the Company realized during fiscal 1998 in addition to improved operating efficiencies. The dollar value increase in selling, general and administrative expenses is attributable to the acquisition of Macrotron AG and the expanded employment and increases in other operating expenses needed to support the increased volume of business.

As a result of the factors described above, operating profit in fiscal 1998 increased 50.1% to \$172.6 million, or 2.4% of net sales, compared to \$115.0 million, or 2.5% of net sales, in fiscal 1997. A factor contributing to the decrease in the operating profit margin from 2.5% in fiscal 1997 to 2.4% in fiscal 1998 was the acquisition of Macrotron AG. Macrotron's operating model employs a lower operating profit margin due to its higher asset turnover, as compared to the Company's U.S. business.

Interest expense increased due to an increase in the Company's average outstanding indebtedness related to funding continued growth, the acquisition of Macrotron AG and capital expenditures. The increase in interest expense was partially offset in fiscal 1998 by decreases in short-term interest rates on the Company's floating rate indebtedness and by the receipt of net proceeds of approximately \$149 million from the Company's November 1997 common stock offering which were used to reduce indebtedness.

The Company's average income tax rate declined to 37.0% for fiscal 1998 as compared to 39.1% for fiscal 1997. This reduction primarily is the result of a larger portion of the Company's income being subject to lower state income tax jurisdictions.

Net income in fiscal 1998 increased 57.1% to \$89.5 million, or \$1.92 per diluted share, compared to \$57.0 million, or \$1.35 per diluted share, in the prior year.

### **Recent Accounting Pronouncements**

In March 1998, the Accounting Standards Executive Committee issued Statement of position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective for fiscal years beginning after December 15, 1998. The Company has elected early implementation of provisions of SOP 98-1 effective for the year ended January 31, 1999. This statement requires capitalization of certain costs relating to computer software developed or obtained for internal use. The impact of adoption was not material to the Company's consolidated financial statements.



In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, the type of the hedge transaction. The ineffective portion of all hedge transactions will be recognized in the current-period earnings. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The future impact of this statement on the Company's results of operations is not expected to be material.

### **Impact of Inflation**

The Company has not been adversely affected by inflation as technological advances and competition within the microcomputer industry has generally caused prices of the products sold by the Company to decline. Management believes that any price increases could be passed on to its customers, as prices charged by the Company are not set by long-term contracts.

### **Liquidity and Capital Resources**

Net cash provided by operating activities of \$43.5 million in fiscal 1999 was primarily attributable to income from operations of \$129.0 million combined with an increase in accounts payable partially offset by increases in accounts receivable and inventories.

Net cash provided by investing activities of \$60.2 million in fiscal 1999 was attributable to receipt of \$227.8 million in proceeds from the sale of Macrotron (see Note 9 of Notes to Consolidated Financial Statements) offset by \$115.0 million related to the acquisition of Computer 2000 and the Company's continuing investment of \$47.8 million in its management information systems, office facilities and its distribution center facilities and \$4.9 million in software development costs. The Company expects to make capital expenditures of approximately \$75 - \$100 million during fiscal 2000 to further expand its management information systems, office facilities and distribution centers.

Net cash used in financing activities of \$97.8 million in fiscal 1999 reflects the net repayments under the Company's revolving credit loans of \$114.1 million partially offset by proceeds from stock option exercises (including the related income tax benefit) of \$16.5 million.

The Company currently maintains domestic and foreign revolving credit agreements which provide maximum short-term borrowings of approximately \$1.35 billion (including local country credit lines), of which \$818 million was outstanding at January 31, 1999. The Company believes that cash from operations, available and obtainable bank credit lines and trade credit from its vendors will be sufficient to satisfy its working capital and capital expenditure needs through fiscal 2000.

### **Asset Management**

The Company manages its inventories by maintaining sufficient quantities to achieve high order fill rates while attempting to stock only those products in high demand with a rapid turnover rate. Inventory balances fluctuate as the Company adds new product lines and when appropriate, makes large purchases, including cash purchases from manufacturers and publishers when the terms of such purchases are considered advantageous. The Company's contracts with most of its vendors provide price protection and stock rotation privileges to reduce the risk of loss due to manufacturer price reductions and slow moving or obsolete inventory. In the event of a vendor price reduction, the Company generally receives a credit for the impact on products in inventory. In addition, the Company has the right to rotate a certain percentage of purchases, subject to certain limitations. Historically, price protection and stock rotation privileges as well as the Company's inventory management procedures have helped to reduce the risk of loss of carrying inventory.

The Company attempts to control losses on credit sales by closely monitoring customers' creditworthiness through its computer system which contains detailed information on each customer's payment history and other relevant information. The Company has obtained credit insurance which insures a percentage of the credit extended by the Company to certain of its larger domestic and international customers against possible loss. Customers who qualify for credit terms are typically granted net 30-day payment terms. The Company also sells products on a prepay, credit card, cash on delivery and floorplan basis.

## Year 2000

### Introduction

The "Year 2000 Problem" arose because many existing computer programs use only the last two digits to refer to a year. Therefore, these computer programs do not properly recognize a year that begins with "20" instead of the familiar "19." If not corrected, many computer applications could fail or create erroneous results. The problems created by using abbreviated dates appear in hardware (such as microchips), operating systems and other software programs. The Company's Year 2000 ("Y2K") compliance project is intended to determine the readiness of the Company's business for the Year 2000. The Company defines Y2K "compliance" to mean that the computer code will process all defined future dates properly and give accurate results.

### Description of Areas of Impact and Risk

The Company has identified four areas where the Y2K problem creates risk to the Company. These areas are: a) internal Information Technology ("IT") systems; b) non-IT systems with embedded chip technology; c) system capabilities of third party businesses with relationships with the Company, including product suppliers, customers, service providers (such as telephone, power, logistics, financial services) and other businesses whose failure to be Y2K compliant could have a material adverse effect on the Company's business, financial condition or results of operations; and d) product liability claims arising out of the non-performance of computer products distributed by the Company.

### Plan to Address Year 2000 Compliance

In August 1997, the Company formed a Year 2000 compliance project team and began developing an overall plan to address Y2K readiness issues. This plan includes five phases as follows: Phase I is to create an inventory of the Company's IT systems, non-IT systems and service providers (each of these being referred to as "business components") that need to be analyzed for Y2K compliance. During Phase I, a priority is established so that the Company will first address the most important business components to determine Y2K readiness. Phase II analyzes the identified business components to determine which of the business components in the inventory require additional effort to be Y2K compliant. Phase III is the repair, modification or replacement of business components which the analysis determines are not Y2K compliant ("remediation"). Phase IV consists of various types of testing to confirm that the remediation process has resulted in the business components being Y2K compliant. Phase V is the development of contingency plans to address potential risks that the Y2K compliance project may not fully address.

### State of Readiness

IT Systems – U.S. and Canada – The Company is in Phase III and Phase IV of the Year 2000 project overall. As testing and remediation progress, the inventory and test plans are refined. Approximately 76% of all identified IT system business components in the U.S. have been deemed to be Y2K compliant as of April 15, 1999 with analysis of the remaining 24% continuing. Of the 24% remaining, remediation will be completed by re-writing and upgrading key software application systems to incorporate Y2K compliance.

Functional testing of individual components of the Company's business critical applications has been completed. Fully integrated tests of these individual components will continue with completion targeted in September 1999. Completion of full integration testing has moved from July to September in order to provide adequate time to complete all remediation of business critical applications outside the mainframe environment and the technology refresh described in the next paragraph.

The expected completion of the testing and remediation of the Company's desktop hardware and software systems is October 1999. The Company is addressing the Y2K compliance of these systems by acceleration of a previously planned desktop technology refresh during which systems that are not Y2K compliant will be replaced. Internal resources have been reallocated and external resources have been secured to address these issues by the planned completion dates. Full integration testing can be completed only after the applications and systems outside the mainframe environment have also been remediated.

The on-line portion of the DCS software system (the Company's system performing the primary business functions of sales order entry, billing, purchasing, distribution and inventory control) has been determined to be compliant for the following dates: January 1, February 29, December 31, 2000. Remaining batch processing portions of the DCS system is still in progress. User acceptance testing for all portions of the DCS system is targeted to begin June 1999. In addition to the Company's internal resources, outside consultants have been secured to focus exclusively on the DCS environment.

IT Systems – Outside the U.S. and Canada – The Company's subsidiaries located outside of the U.S. and Canada are currently focusing on Phase III and Phase IV tasks of the Year 2000 project. As of March 29, 1999, approximately 59% of the identified critical business components of all countries have been determined to be Y2K compliant. Each country is separately reporting on its progress, with central coordination and management provided by the Y2K compliance project team.

For the subsidiaries of Computer 2000 ("C2000"), country locations are divided into two core areas: those using the SAP R/2 system (the Company's system performing the primary business functions of sales, order entry, billing, purchasing, distribution and inventory control) and those that use other systems to provide these business processes. The majority of the countries use the SAP R/2 system. The version of SAP R/2 in use by C2000, has received certification from TUV, a German governmental independent testing authority, that it is Y2K compliant. C2000 is testing these elements and the custom modifications it has to the system, with completion of this testing scheduled for September 1999. This testing incorporates related subsystems and key client/server and desktop systems.

For those countries using non SAP R/2 systems, conversion to SAP R/2 or upgrades to a compliant system are being implemented or the system is being determined to be Y2K compliant by certification by the vendor and internal C2000 testing. In France, the Company is consolidating the operations of its Tech Data subsidiary with C2000's subsidiary. As part of this consolidation, SAP R/2 systems will be replaced with currently existing enterprise systems that are not Y2K compliant. For this reason, additional project phases have been identified which will require the conversion of operations in France to a single, Y2K compliant, enterprise system. Conversion of this system is scheduled to begin in July 1999.

Non-IT systems – The non-IT systems (devices which store and report date-related information, such as access control systems, elevators, conveyors, escalators and other items containing a microprocessor or internal clock) are utilizing the phased plan approach for the IT systems. Phase I inventory and prioritization has been completed for non-IT systems in the U.S., and in connection with the Company's acquisition of Computer 2000, is currently being conducted in the Company's worldwide locations. Phase II analysis is being performed on systems material to the Company's operations with the assistance of the Company's vendors, with completion expected in July 1999. Implementation of Phases III and IV will continue through August 1999. The Company currently plans to complete the Y2K compliance program for all material non-IT systems by the end of October 1999.

Material Third Parties – The Company relies on third party suppliers for many systems, products and services. The Company will be adversely affected if these third parties are not Y2K compliant. The Company continues to solicit, receive and review responses to surveys sent to those third parties determined to be material to the operations of the Company to determine their Y2K readiness. For those critical third parties that fail to respond to the Company's survey, the Company is pursuing alternative means of obtaining Y2K readiness information and is conducting reviews of publicly available information published by such third parties.

Product Liability – The Company does not make any representations or warranties that the products it distributes are or will be Y2K-ready or compliant. In certain countries where the Company or its subsidiaries distribute products, the Company may have an obligation to accept returns of products which fail because the product is not Y2K ready. In most cases, these returns may be passed on to the manufacturer. In those countries where product return obligations may exist, the Company plans to carefully review manufacturer representations regarding products that are sold in material volumes by the Company or its subsidiaries.

#### Cost of Project

The Company has incurred approximately \$3.1 million through January 31, 1999, on the Y2K compliance effort, excluding compensation and benefit costs for associates who do not work full-time on the Y2K project and costs of systems upgrades that would have normally been made on a similar timetable. The overall cost of the Y2K compliance effort cannot be accurately estimated until all inventory and analysis phases associated with the recent acquisition of Computer 2000 have been completed, however, the Company believes the cost will be approximately \$9.1 million.

## Contingency Planning and Risks

The Company has begun contingency planning for some of its critical applications and will be developing additional contingency plans as testing determines the necessity. While the Company believes that its approach to Y2K readiness is sound, it is possible that some business components are not identified in the inventory, or that the scanning or testing process does not result in analysis and remediation of all source code. The Company will assume a third party is not Y2K ready if no survey response or an inadequate survey response is received. The Company's contingency plan will address alternative providers and processes to deal with business interruptions that may be caused by internal system or third party provider's failure to be Y2K ready to the extent it is possible.

The failure to correct a material Y2K problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failure could materially and adversely affect the Company's operations and therefore, could materially and adversely affect the Company's results of operations, liquidity and financial condition. In addition, the Company's operating results could be materially adversely affected if it were to be held responsible for the failure of any products sold by the Company to be Y2K ready despite the Company's disclaimer of product warranties and the limitation of liability contained in its sales terms and conditions.

## Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union commenced a conversion from their existing sovereign currencies to a new, single currency called the euro. Fixed conversion rates between the existing currencies, the legacy currencies, and the euro were established and the euro became the common legal currency of the participating countries on this date. The euro now trades on currency exchanges and is available for non-cash transactions. The participants will now issue sovereign debt exclusively in euro and have redenominated all outstanding sovereign debt. Following this introduction period, the participating members legacy currencies will remain legal tender as denominations of euro until January 1, 2002. At that time, countries will issue new euro-denominated bills for use in cash transactions. All legacy currency will be withdrawn prior to July 1, 2002 completing the euro conversion on this date. As of January 1, 1999, the participating countries no longer control their own monetary policies by directing independent interest rates for the legacy currencies, and instead, the authority to direct monetary policy, including money supply and official interest rates for the euro, is exercised by the new European Central Bank.

The Company has implemented a plan to address the issues raised by the euro conversion. These issues include, but are not limited to; the competitive impact created by cross-border price transparency; the need for the Company and its business partners to adapt IT and non-IT systems to accommodate euro-denominated transactions; and the need to analyze the legal and contractual implications of the Company's contracts. The Company currently anticipates that the required modifications to its systems, equipment and processes will be made on a timely basis and does not expect that the costs of such modifications will have a material effect on the Company's financial position or results of operations.

Since the implementation of the euro on January 31, 1999, the Company has experienced improved efficiencies in its cash management program in Europe and has been able to reduce certain hedging activities as a direct result of the conversion. The Company has not experienced any material adverse effects on its financial position or results of operations in connection with the initial roll-out of the euro currency.

## Market Risk

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

In addition to product sales and costs, the Company has foreign currency risk related to debt that is denominated in currencies other than the dollar and cross-currency swaps hedging intercompany debt. The Company's foreign currency risk management objective is to protect its earnings and cash flows resulting from sales, purchases and other transactions from the adverse impact of exchange rate movements. Foreign exchange risk is managed by using forward, option and swap contracts to hedge intercompany loans, receivables and payables. Hedged transactions are denominated primarily in Belgian Franc, Danish Krone, French Franc, Spanish Peseta, Finnish Markka, Norwegian Krone, German Mark, Swedish Krona, Swiss Franc and British Pound.

The Company is exposed to changes in interest rates primarily as a result of its short and long-term debt used to maintain liquidity and finance inventory, capital expenditures and business expansion. Interest rate risk is also present in the cross-currency swaps hedging intercompany and third-party loans. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve its objectives the Company uses a combination of fixed- and variable-rate debt. As of January 31, 1999, approximately 49% of the outstanding debt had fixed interest rates. The Company finances working capital needs through various bank loans and commercial paper programs.

Foreign exchange and interest rate risk and related derivatives use is monitored using a variety of techniques including periodic review of market value and sensitivity analyses. The Company's computations are based on interrelationships between currencies and interest rates. These interrelationships are determined by observing foreign currency market changes and interest rate changes over the preceding 90 days. The value of foreign currency options does not change on a one-to-one basis with changes in the underlying currency rate. The model includes all of the Company's forwards, options and interest rate swaps. The Company believes that the hypothetical fluctuation in fair value of its derivatives would be offset by increases/decreases in the value of the underlying transactions being hedged.

#### **Comments on Forward-Looking Information**

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company has filed an Exhibit 99A which outlines cautionary statements and identifies important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements made by, or on behalf of, the Company. Such forward-looking statements, as made within Items 1 and 7 of this Form 10-K, should be considered in conjunction with the aforementioned Exhibit 99A.



**ITEM 8. Financial Statements and Supplementary Data**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

To the Board of Directors and Shareholders of Tech Data Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Tech Data Corporation and its subsidiaries at January 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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 provide a reasonable basis for the opinion expressed above.



PricewaterhouseCoopers LLP  
Tampa, Florida  
March 19, 1999

**REPORT OF MANAGEMENT**

To Our Shareholders:

The management of Tech Data Corporation is responsible for the preparation, integrity and objectivity of the consolidated financial statements and related financial information contained in this Annual Report. The financial statements have been prepared by the Company in accordance with generally accepted accounting principles and, in the judgment of management, present fairly and consistently the Company's financial position and results of operations. The financial statements and other financial information in this report include amounts that are based on management's best estimates and judgments and give due consideration to materiality.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The design, monitoring and revisions of the system of internal accounting controls involves, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures.

The Audit Committee of the Board of Directors is responsible for recommending to the Board the independent certified public accounting firm to be retained each year. The Audit committee meets periodically with the independent accountants and management to review their performance and confirm that they are properly discharging their responsibilities. The independent accountants have direct access to the Audit Committee to discuss the scope and results of their work, the adequacy of internal accounting controls and the quality of financial reporting.



Steven A. Raymond  
Chairman of the Board of Directors  
and Chief Executive Officer  
March 19, 1999



Jeffery P. Howells  
Executive Vice President  
and Chief Financial Officer

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(In thousands, except share amounts)

	January 31,	
	1999	1998
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 8,615	\$ 2,749
Accounts receivable, less allowance of \$60,521 and \$29,731 . . . . .	1,796,045	909,426
Inventories . . . . .	1,369,351	1,028,367
Prepaid and other assets . . . . .	113,952	65,843
Total current assets . . . . .	3,287,963	2,006,385
Property and equipment, net . . . . .	126,537	100,562
Excess of cost over acquired net assets, net . . . . .	345,326	55,460
Other assets, net . . . . .	85,161	22,976
	\$ 3,844,987	\$ 2,185,383
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving credit loans . . . . .	\$ 817,870	\$ 540,177
Accounts payable . . . . .	1,503,866	850,866
Accrued expenses . . . . .	241,170	77,961
Total current liabilities . . . . .	2,562,906	1,469,004
Long-term debt . . . . .	308,521	8,683
Total liabilities . . . . .	2,871,427	1,477,687
Minority interest . . . . .	6,269	5,108
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, par value \$.02; 226,500 shares Authorized and issued; liquidation Preference \$.20 per share . . . . .	5	5
Common stock, par value \$.0015; 200,000,000 shares authorized; 51,098,442 and 48,250,349 issued and outstanding . . . . .	77	72
Additional paid-in capital . . . . .	505,385	403,880
Retained earnings . . . . .	428,720	299,768
Cumulative translation adjustment . . . . .	33,104	(1,137)
Total shareholders' equity . . . . .	967,291	702,588
	\$ 3,844,987	\$ 2,185,383

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
(In thousands, except per share amounts)

	Year ended January 31,		
	1999	1998	1997
Net sales .....	<b>\$11,528,999</b>	\$ 7,056,619	\$ 4,598,941
Cost and expenses:			
Cost of products sold .....	<b>10,801,126</b>	6,590,873	4,277,160
Selling, general and administrative expenses .....	<b>492,542</b>	293,108	206,770
.....	<b>11,293,668</b>	6,883,981	4,483,930
Operating profit .....	<b>235,331</b>	172,638	115,011
Interest expense .....	<b>44,988</b>	29,908	21,522
Gain on sale of Macrotron AG .....	<b>15,700</b>	—	—
Income before income taxes .....	<b>206,043</b>	142,730	93,489
Provision for income taxes .....	<b>76,215</b>	52,816	36,516
Income before minority interest .....	<b>129,828</b>	89,914	56,973
Minority interest .....	<b>876</b>	429	—
Net income .....	<b>\$ 128,952</b>	\$ 89,485	\$ 56,973
Net income per common share:			
Basic .....	<b>\$ 2.59</b>	\$ 2.00	\$ 1.39
Diluted .....	<b>\$ 2.47</b>	\$ 1.92	\$ 1.35
Weighted average common shares outstanding:			
Basic .....	<b>49,727</b>	44,715	40,870
Diluted .....	<b>54,161</b>	46,610	42,125

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance – January 31, 1996 .....	227	\$5	37,931	\$57	\$130,045	\$153,310	\$ 2,281	\$ 285,698
Issuance of common stock for stock options exercised and related tax benefit .....			760	1	13,223			13,224
Issuance of common stock net of offering costs .....			4,600	7	83,309			83,316
Comprehensive Income .....						56,973	(830)	56,143
Balance – January 31, 1997 .....	227	5	43,291	65	226,577	210,283	1,451	438,381
Issuance of common stock in business purchase .....			407	1	9,255			9,256
Issuance of common stock for stock options exercised and related tax benefit .....			861	1	19,077			19,078
Issuance of common stock net of offering costs .....			3,691	5	148,971			148,976
Comprehensive Income .....						89,485	(2,588)	86,897
Balance – January 31, 1998 .....	227	5	48,250	72	403,880	299,768	(1,137)	702,588
Issuance of common stock in business purchase .....			2,196	3	84,964			84,967
Issuance of common stock for stock options exercised and related tax benefit .....			652	2	16,541			16,543
Comprehensive Income .....						128,952	34,241	163,193
Balance – January 31, 1999 .....	<u>227</u>	<u>\$5</u>	<u>51,098</u>	<u>\$77</u>	<u>\$505,385</u>	<u>\$428,720</u>	<u>\$33,104</u>	<u>\$967,291</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In thousands)

	Year ended January 31,		
	1999	1998	1997
Cash flows from operating activities:			
Cash received from customers	\$11,094,731	\$ 6,870,096	\$ 4,390,916
Cash paid to suppliers and employees	(10,948,414)	(6,914,537)	(4,513,309)
Interest paid	(39,926)	(29,909)	(21,122)
Income taxes paid	(62,895)	(51,949)	(45,037)
Net cash provided by (used in) operating activities	43,496	(126,299)	(188,552)
Cash flows from investing activities:			
Acquisition of business, net of cash acquired	(115,000)	(68,136)	—
Sale of Macrotron AG	227,843	—	—
Expenditures for property and equipment	(47,796)	(45,900)	(19,229)
Software development costs	(4,856)	(2,216)	(2,024)
Net cash provided by (used in) investing activities	60,191	(116,252)	(21,253)
Cash flows from financing activities:			
Proceeds from issuance of common stock	16,543	168,054	96,540
Net borrowings (repayments) from revolving credit loans	(114,151)	76,786	113,291
Principal payments on long-term debt	(213)	(201)	(519)
Net cash (used in) provided by financing activities	(97,821)	244,639	209,312
Net increase (decrease) in cash and cash equivalents	5,866	2,088	(493)
Cash and cash equivalents at beginning of year	2,749	661	1,154
Cash and cash equivalents at end of year	\$ 8,615	\$ 2,749	\$ 661
Reconciliation of net income to net cash provided by (used in)			
operating activities:			
Net income	\$ 128,952	\$ 89,485	\$ 56,973
Adjustments to reconcile net income to net cash			
provided by (used in) operating activities:			
Depreciation and amortization	42,605	26,364	20,011
Provision for losses on accounts receivable	34,810	22,634	19,648
Gain on sale of Macrotron AG	(15,700)	—	—
Loss on disposal of fixed assets	—	—	446
Deferred income taxes	500	3,720	(5,051)
Changes in assets and liabilities:			
(Increase) in accounts receivable	(434,268)	(183,481)	(208,025)
(Increase) in inventories	(49,830)	(181,393)	(294,552)
Decrease (Increase) in prepaid and other assets	89,140	(8,317)	(13,962)
Increase in accounts payable	387,136	106,134	225,358
(Decrease) increase in accrued expenses	(139,849)	(1,445)	10,602
Total adjustments	(85,456)	(215,784)	(245,525)
Net cash (used in) provided by operating activities	\$ 43,496	\$ (126,299)	\$ (188,552)

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Principles of consolidation**

The consolidated financial statements include the accounts of Tech Data Corporation and its subsidiaries ("Tech Data" or the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

**Method of accounting**

The Company prepares its financial statements in conformity with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition**

Sales are recorded upon shipment. The Company allows its customers to return product for exchange or credit subject to certain limitations. Provision for estimated losses on such returns are recorded at the time of sale (see product warranty below). Funds received from vendors for marketing programs and product rebates are accounted for as a reduction of selling, general and administrative expenses or product cost according to the nature of the program.

**Inventories**

Inventories (consisting of computer related hardware and software products) are stated at the lower of cost or market, cost being determined on the first-in, first-out (FIFO) method.

**Property and equipment**

Property and equipment are stated at cost. Depreciation is computed over the estimated economic lives (or lease period if shorter) using the following methods:

	<u>Method</u>	<u>Years</u>
Buildings and improvements	Straight-line	15 - 39
Leasehold improvements	Straight-line	2 - 10
Furniture, fixtures and equipment	Accelerated and straight-line	2 - 10

Expenditures for renewals and improvements that significantly add to productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to operations when incurred. When assets are sold or retired, the cost of the asset and the related accumulated depreciation are eliminated from the accounts and any gain or loss is recognized at such time.

**Long lived assets**

Long lived assets are reviewed for potential impairment at such time when events or changes in circumstances indicate that recovery of the asset is unlikely. Any impairment loss would be recognized when the sum of the expected, undiscounted future net cash flows is less than the carrying amount of the asset.



**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Excess of cost over acquired net assets**

The excess of cost over acquired net assets ("goodwill") is being amortized on a straight-line basis over 15 to 40 years. Amortization expense was \$5,714,000, \$1,458,000 and \$602,000 in 1999, 1998 and 1997, respectively. The accumulated amortization of goodwill is approximately \$8,651,000 and \$3,563,000 at January 31, 1999 and 1998, respectively.

**Intangibles**

Included within other assets at January 31, 1999 are certain intangible assets including deferred software costs and the allocation of a portion of the purchase price of Computer 2000 AG ("Computer 2000") to software used within the Computer 2000 entity and the value of the customer base acquired (see Note 2 – Acquisition and Disposition of Subsidiaries). Such deferred costs are being amortized over three to ten years with amortization expense of \$8,442,000, \$4,967,000 and \$4,611,000 in 1999, 1998 and 1997, respectively. The accumulated amortization of such costs was \$22,603,000 and \$14,160,000 at January 31, 1999 and 1998, respectively. The remaining unamortized balance of such costs was \$39,876,000 and \$17,894,000 at January 31, 1999 and 1998, respectively.

**Product warranty**

The Company's vendors generally warrant the products distributed by the Company and allow the Company to return defective products, including those that have been returned to the Company by its customers. The Company does not independently warrant the products it distributes; however, the Company does warrant the following: (1) services with regard to products configured for its customers, and (2) products it builds to order from components purchased from other sources. A provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. Warranty expense was not material to the Company's Consolidated Statement of Income.

**Income taxes**

Income taxes are accounted for under the liability method. Deferred taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries or the cumulative translation adjustment related to those investments since such amounts are expected to be reinvested indefinitely.

**Foreign currency activities**

The assets and liabilities of foreign operations are translated at the exchange rates in effect at the balance sheet date, with the related translation gains or losses reported as a separate component of shareholders' equity. The results of foreign operations are translated at the weighted average exchange rates during the year. The Company recorded a net gain resulting from foreign currency transactions (including gains or losses or forward contracts) of \$5,027,000 for the year ended January 31, 1999. The foreign currency gains (losses) for the fiscal years ended January 31, 1998 and 1997 were immaterial.

**Concentration of credit risk**

The Company sells its products to a large base of value-added resellers ("VARs"), corporate resellers, retailers, direct marketers and internet resellers throughout the United States, Canada, the Caribbean, Latin America, Europe, and the Middle East. The Company also performs ongoing credit evaluations of its customers and generally does not require collateral. The Company has obtained credit insurance which insures a percentage of credit extended by the Company to certain of its larger domestic and international customers against possible loss. The Company makes provisions for estimated credit losses at the time of sale.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Derivative financial instruments**

The Company operates internationally with distribution facilities in various locations around the world. The Company reduces its exposure to fluctuations in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items being hedged. The majority of the Company's derivative financial instruments have terms of 180 days or less. The Company currently does not use derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

Derivative financial instruments are accounted for on an accrual basis. Income and expense are recorded in the same category as that arising from the related asset or liability being hedged. Gains and losses resulting from effective hedges of existing assets, liabilities or firm commitments are deferred and recognized when the offsetting gains and losses are recognized on the related hedged items.

The notional amount of forward exchange contracts and options is the amount of foreign currency bought or sold at maturity. The notional amount of currency interest rate swaps is the underlying principal and currency amounts used in determining the interest payments exchanged over the life of the swap. Notional amounts are indicative of the extent of the Company's involvement in the various types and uses of derivative financial instruments and are not a measure of the Company's exposure to credit or market risks through its use of derivatives. The estimated fair value of derivative financial instruments represents the amount required to enter into like off-setting contracts with similar remaining maturities based on quoted market prices.

The Company's derivative financial instruments outstanding at January 31, 1999 and 1998 are as follows (derivative instruments outstanding at January 31, 1997 were not material):

	January 31,			
	1999		1998	
	Notional Amounts	Estimated Fair Value	Notional Amounts	Estimated Fair Value
	(In thousands)			
Foreign exchange forward contracts . . . . .	\$438,000	\$ 130	\$ 78,000	\$ 940
Purchased foreign currency options . . . . .	60,000	90	500	(10)
Currency interest rate swaps . . . . .	329,000	(2,440)	128,300	400

**Fair value of financial instruments**

Financial instruments (excluding derivative financial instruments) that are subject to fair value disclosure requirements are carried in the consolidated financial statements at amounts that approximate fair value. The carrying amount of debt outstanding pursuant to bank credit agreements approximates fair value as interest rates on these instruments approximate current market rates. The carrying amount of the convertible subordinated notes approximates fair value based upon available market information. Fair value is estimated based on discounted cash flows and available market information as well as other valuation techniques.

**Comprehensive income**

Effective for the fiscal year ended January 31, 1999 the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in the Company's consolidated financial statements. Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

balance of other comprehensive income is comprised exclusively of changes in the net cumulative translation adjustment. For the year ended January 31, 1999, the company has recorded deferred income taxes related to the change in the cumulative translation adjustment of \$4,376,000. The deferred income taxes related to the cumulative translation adjustments for the years ended January 31, 1998 and 1997 was not significant.

**Stock-based compensation**

The Company has adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"). As permitted by this pronouncement, the Company's measurement of compensation cost continues to be in accordance with the Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." In accordance with the requirements of SFAS 123, the appropriate pro forma disclosures relating to net income and earnings per share are provided. See Note 7 – Employee Benefit Plans.

**Net income per common share**

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS reflects the potential dilution that could occur assuming the conversion of the convertible subordinated notes and exercise of the stock options using the if-converted and treasury stock methods, respectively. The composition of basic and diluted net income per common share is as follows:

	Year ended January 31,								
	1999			1998			1997		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
	(In thousands, except per share amounts)								
Net income per common									
Share – basic	\$128,952	49,727	\$2.59	\$89,485	44,715	\$2.00	\$56,973	40,870	\$1.39
Effect of dilutive securities:									
Stock options	—	1,767		—	1,895		—	1,255	
5% convertible subordinated notes	4,726	2,667		—	—		—	—	
Net income per common									
Share – diluted	\$133,678	54,161	\$2.47	\$89,485	46,610	\$1.92	\$56,973	42,125	\$1.35

At January 31, 1999, 1998 and 1997, there were 1,571,000, 98,000 and 26,000 shares, respectively, excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

**Cash management system**

Under the Company's cash management system, disbursements cleared by the bank are reimbursed on a daily basis from the revolving credit loans. As a result, checks issued but not yet presented to the bank are not considered reductions of cash or accounts payable. Included in accounts payable are \$95,185,000 and \$60,000,000 at January 31, 1999 and 1998 respectively, for which checks are outstanding.

**Statement of cash flows**

Short-term investments which have an original maturity of ninety days or less are considered cash equivalents in the statement of cash flows. The effect of changes in foreign exchange rates on cash balances is not material. See Note 2 of Notes to Consolidated Financial Statements regarding the non-cash exchange of common stock and convertible notes in connection with business combinations.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Fiscal year**

The Company and its North American subsidiaries operate on a fiscal year that ends on January 31. The Company consolidates its European and Latin American subsidiaries on a fiscal year that ends on December 31. The difference in year-end dates is primarily attributable to regulatory requirements imposed on the Company's foreign subsidiaries as well as timing of information requirements.

**Recent accounting pronouncements**

In March 1998, the Accounting Standards Executive Committee issued Statement of position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective for fiscal years beginning after December 15, 1998. The Company has elected early implementation of provisions of SOP 98-1 effective for the year ended January 31, 1999. This statement requires capitalization of certain costs relating to computer software developed or obtained for internal use. The impact of adoption was not material to the Company's consolidated financial statements.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, the type of the hedge transaction. The ineffective portion of all hedge transactions will be recognized in the current-period earnings. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The future impact of this statement on the Company's results of operations is not expected to be material.

**NOTE 2 – ACQUISITION AND DISPOSITION OF SUBSIDIARIES:**

**Acquisition of Macrotron AG**

On July 1, 1997, the Company acquired approximately 77% of the voting common stock and 7% of the non-voting preferred stock of Macrotron AG ("Macrotron"), a distributor of personal computer products based in Munich, Germany. The initial acquisition was completed through an exchange of approximately \$26 million in cash and 406,586 shares of the Company's common stock, for a combined total value of \$35 million. The cash portion of the initial acquisition, the related tender offer and subsequent purchase of Macrotron's common and preferred stock were funded from the Company's revolving credit loan agreements. Prior to the disposition discussed below, the Company owned approximately 99% and 91% of Macrotron's common and preferred stock, respectively for a total purchase price of \$80,000,000.

The acquisition of Macrotron was accounted for under the purchase method. The purchase price allocation resulted in approximately \$53,500,000 in excess cost over the net fair market value of tangible assets acquired as of January 31, 1998 and was being amortized over a period of 20 years. Consistent with the Company's accounting policy for foreign subsidiaries, Macrotron's operations were consolidated into the Company's consolidated financial statements on a calendar year basis. Consequently, the Company's fiscal year ending January 31, 1998 includes Macrotron's operations for the six month period beginning July 1, 1997 and ending December 31, 1997.

**Disposition of Macrotron AG**

Effective July 1, 1998, pursuant to a Share Purchase Agreement dated June 10, 1998, the Company completed the sale of its majority interest in Munich-based subsidiary Macrotron AG ("Macrotron") to Ingram Micro, Inc. ("Ingram"). Tech Data owned 99% and 91% of Macrotron's outstanding common and preferred stock, respectively, at the time of the sale. The sale of Macrotron was completed through the receipt of approximately \$228,000,000 from Ingram (approximately \$100,000,000 for the Company's shares of Macrotron and the balance of \$128,000,000 for the repayment of Macrotron's intercompany indebtedness). The Company recorded a \$15,700,000 gain on the sale, of which \$3,200,000 was recorded in the fourth quarter due to resolution of certain contingencies.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Acquisition of Computer 2000 AG**

On July 1, 1998, Tech Data completed the acquisition of approximately 83% of the voting common stock of Computer 2000, a European distributor of technology products. The Company acquired 80% of the outstanding voting stock of Computer 2000 from its parent company, Klöckner & Co. AG., a subsidiary of Munich-based conglomerate VIAG AG, and an additional stake of approximately 3% of Computer 2000's shares from an institutional investor. The initial acquisition was completed through an exchange of approximately 2.2 million shares of Tech Data common stock and \$300,000,000 of 5% convertible subordinated notes, due 2003 (coupon rate of 5.0%, five year term and convertible into shares of common stock at \$56.25 per share). The purchase agreement is subject to certain contingent payments based on future events. Any payments made by the Company relating to this contingency will increase the purchase price and will result in additional goodwill. The Company commenced a tender offer for the remaining C2000 shares and, as a result of this tender offer, open market purchases and private purchase transactions, the Company currently owns approximately 99.3% of Computer 2000's outstanding stock at January 31, 1999. The tender offer, open market purchases and private purchase transactions were funded through the Company's revolving credit loan agreements.

The acquisition of Computer 2000 was accounted for under the purchase method. The purchase price of approximately \$500,000,000 was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price over fair value of net assets acquired of approximately \$319,000,000 (\$343,000,000 at year end exchange rates) is being amortized on a straight-line basis over 40 years. The final allocation of the purchase price has not been finalized due to various contingent liabilities identified by the Company including costs of restructuring. To the extent these liabilities are not fully incurred, the purchase price and related goodwill will be reduced accordingly.

The Company's subsidiaries outside of North America are included in its consolidated financial statements on a calendar basis. As such, the year ended January 31, 1999 includes six months results for Computer 2000 (which was acquired effective July 1, 1998) and includes six months of operating results for Macrotron (which was sold effective July 1, 1998).

**Pro forma information**

The following unaudited pro forma results of operations reflect the effect on the Company's operations as if the above described acquisition of Macrotron had occurred at the beginning of each of the periods presented below (in thousands, except per share amounts):

	<u>Year ended January 31,</u>	
	<u>1998</u>	<u>1997</u>
Net sales .....	<b>\$7,623,852</b>	\$5,571,406
Net income .....	<b>90,161</b>	60,716
Net income per common share:		
Basic .....	<b>2.01</b>	1.47
Diluted .....	<b>1.93</b>	1.43

The following unaudited pro forma results of operations reflect the effect on the Company's operations as if the above described acquisition of Computer 2000 and disposition of Macrotron had occurred at the beginning of each of the periods presented below:



**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

	Year ended January 31,	
	1999	1998
Net sales .....	\$13,694,426	\$11,350,432
Net income .....	125,954	95,669
Net income per common share:		
Basic .....	2.48	2.04
Diluted .....	2.34	1.94

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisitions and dispositions noted above been consummated as of the beginning of the respective periods, nor are they necessarily indicative of future operating results.

**Non-cash transactions**

The Company issued 406,586 shares of common stock in conjunction with the purchase of Macrotron in July 1997. Additionally, the Company issued \$300,000,000 convertible subordinated notes and approximately 2,200,000 shares of common stock in conjunction with its acquisition of Computer 2000 in July 1998.

**NOTE 3 - PROPERTY AND EQUIPMENT:**

	January 31,	
	1999	1998
	(In thousands)	
Land .....	\$ 4,897	\$ 7,805
Buildings and improvements .....	36,995	36,543
Furniture, fixtures and equipment .....	156,414	112,821
Construction in progress .....	4,299	12,359
	<u>202,605</u>	<u>169,528</u>
Less-accumulated depreciation .....	<u>(76,068)</u>	<u>(68,966)</u>
	<u>\$ 126,537</u>	<u>\$ 100,562</u>

**NOTE 4 - REVOLVING CREDIT LOANS:**

	January 31,	
	1999	1998
	(In thousands)	
Receivables Securitization Program, average interest rate of 5.41% at January 31, 1999 expiring February 28, 2000 .....	\$ 355,000	\$237,420
Multicurrency Revolving Credit Facility, average interest rate of 4.14% at January 31, 1999, expiring August 28, 2000 .....	295,539	300,568
Other revolving credit facilities, various interest rates, expiring on various dates through 1999 .....	<u>167,331</u>	<u>2,189</u>
	<u>\$ 817,870</u>	<u>\$540,177</u>

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Company has an agreement (the "Receivables Securitization Program") with three financial institutions that allows the Company to transfer an undivided interest in a designated pool of U.S. accounts receivable on an ongoing basis to provide borrowings up to a maximum of \$500,000,000. As collections reduce accounts receivable balances included in the pool, the Company may transfer interests in new receivables to bring the amount available to be borrowed up to the maximum. The Company pays interest on advances under the Receivables Securitization Program at a designated commercial paper rate, plus an agreed-upon margin.

Under the terms of the Company's Multicurrency Revolving Credit Facility with a syndicate of banks, the Company is able to borrow funds in sixteen major foreign currencies up to a maximum of \$550,000,000 on an unsecured basis. The Company pays interest on advances under this facility at the applicable eurocurrency rate plus a margin based on certain financial ratios. The Company can fix the interest rate for periods of 30 to 180 days under various interest rate options.

In addition to the facilities described above, the Company has additional lines of credit and overdraft facilities to support its worldwide operations. Most of these facilities are provided on an unsecured, short-term basis and are reviewed periodically for renewal. Under the covenants of the Company's Multicurrency Revolving Credit Facility, indebtedness outstanding under these facilities may not exceed \$300,000,000.

The Company's credit agreements contain warranties and covenants that must be complied with on a continuing basis, including the maintenance of certain financial ratios and restrictions on payment of dividends. At January 31, 1999, the Company was in compliance with all such covenants.

**NOTE 5 - LONG-TERM DEBT:**

	<b>January 31,</b>	
	<b>1999</b>	<b>1998</b>
	<b>(In thousands)</b>	
Mortgage note payable, interest at 10.25%, principal and interest of \$85,130 payable monthly, balloon payment due 2005 .....	<b>\$ 8,661</b>	\$ 8,788
Mortgage note payable funded through Industrial Revenue Bond, interest at 6.90%, principal and interest payable quarterly, through 2000 .....	<b>22</b>	108
Convertible subordinated debentures, interest at 5.00% payable semi-annually, due 2003 .....	<b>300,000</b>	—
	<b>308,683</b>	8,896
Less - current maturities .....	<b>(162)</b>	(213)
	<b>\$ 308,521</b>	<b>\$ 8,683</b>

Principal maturities of long-term debt at January 31, 1999 for the succeeding five fiscal years are as follows: 2000 - \$162,000; 2001 - \$155,000; 2002 - \$172,000; 2003 - \$191,000; 2004 - \$300,211,000.

On July 1, 1998, the Company issued \$300,000,000 convertible subordinated notes due July 1, 2003. The notes bear interest at 5% per year and are convertible any time prior to maturity, unless previously redeemed or repurchased, into shares of common stock at a conversion rate of 17.777 shares per \$1,000 principal amount of notes, equivalent to a conversion price of approximately \$56.25 per share. The notes are convertible into approximately 5,300,000 shares of the Company's common stock. The notes are redeemable in whole or in part, at the option of the Company at any time on or after July 1, 2001. These notes are subordinated in right of payment to all senior indebtedness of the Company and will be effectively subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

Mortgage notes payable are guaranteed by property and equipment with an original cost of approximately \$12,000,000. The Industrial Revenue Bond contains covenants which require the Company to maintain certain financial ratios with which the Company was in compliance at January 31, 1999.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 6 - INCOME TAXES (in thousands):**

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

	<b>January 31,</b>	
	<b>1999</b>	<b>1998</b>
Deferred tax liabilities:		
Accelerated depreciation and amortization . . . . .	<b>\$ 19,821</b>	\$ 10,519
Capitalized advertising program costs . . . . .	<b>2,174</b>	1,630
Other – net . . . . .	<b>6,242</b>	4,937
Total gross deferred tax liabilities . . . . .	<b>28,237</b>	17,086
Deferred tax assets:		
Accruals not currently deductible . . . . .	<b>7,880</b>	5,412
Reserves not currently deductible . . . . .	<b>22,777</b>	21,290
Capitalized inventory costs . . . . .	<b>2,046</b>	1,959
Loss carryforwards . . . . .	<b>59,996</b>	—
Other – net . . . . .	<b>8,934</b>	371
Total gross deferred tax assets . . . . .	<b>101,633</b>	29,032
Less: valuation allowance . . . . .	<b>(16,037)</b>	—
Total net deferred tax assets . . . . .	<b>85,596</b>	29,032
Net deferred tax asset (included in prepaid and other assets) . . . . .	<b>\$ 57,359</b>	\$ 11,946

Significant components of the provision for income taxes are as follows:

	<b>Year ended January 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
Current:			
Federal . . . . .	<b>\$ 50,153</b>	\$ 39,805	\$ 32,485
State . . . . .	<b>6,816</b>	2,469	5,897
Foreign . . . . .	<b>18,746</b>	6,822	3,185
Total current . . . . .	<b>75,715</b>	49,096	41,567
Deferred:			
Federal . . . . .	<b>(3,093)</b>	3,328	(3,490)
State . . . . .	<b>(424)</b>	507	(451)
Foreign . . . . .	<b>4,017</b>	(115)	(1,110)
Total deferred . . . . .	<b>500</b>	3,720	(5,051)
	<b>\$ 76,215</b>	\$ 52,816	\$ 36,516

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense is as follows:

	<b>Year ended January 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
Tax at U.S. statutory rates . . . . .	<b>35.0%</b>	35.0%	35.0%
State income taxes, net of federal tax benefit . . . . .	<b>1.5</b>	1.4	3.8
Other – net . . . . .	<b>.5</b>	.6	.3
	<b>37.0%</b>	37.0%	39.1%

The components of pretax earnings are as follows:

	<b>Year ended January 31,</b>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
United States . . . . .	<b>\$ 140,850</b>	\$ 126,757	\$ 88,536
Foreign . . . . .	<b>65,193</b>	15,973	4,953
	<b>\$ 206,043</b>	\$ 142,730	\$ 93,489

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Company's foreign subsidiaries had deferred tax assets relating to net operating loss carryforwards of \$145 million. The majority of the net operating losses have an indefinite carryforward period with the remaining portion expiring in years 1999 through 2009. A valuation allowance of \$16 million has been recognized to offset the deferred tax assets relating to the net operating loss carryforwards.

The cumulative amount of undistributed earnings of international subsidiaries for which U.S. income taxes have not been provided was approximately \$59 million at January 31, 1999. It is not practical to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

**NOTE 7 - EMPLOYEE BENEFIT PLANS:**

**Stock compensation plans**

At January 31, 1999, the Company had three stock-based compensation plans, as well as a employee stock purchase plan, an employee stock ownership plan and a retirement savings plan, which are described below. The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan.

**Fixed stock option plans**

In August 1985, the Board of Directors adopted the 1985 Incentive Stock Option Plan (the "1985 Plan"), which covers an aggregate of 1,050,000 shares of common stock. The options were granted to certain officers and key employees at or above fair market value; accordingly, no compensation expense has been recorded with respect to these options. Options are exercisable beginning two years from the date of grant only if the grantee is an employee of the Company at that time. No options may be granted under the 1985 Plan after July 31, 1995.

In June 1990, the shareholders approved the 1990 Incentive and Non-Statutory Stock Option Plan (the "1990 Plan") which covers an aggregate of 10,000,000 shares (as amended in June 1997) of common stock. The 1990 Plan provides for the granting of incentive and non-statutory stock options, stock appreciation rights ("SARs") and limited stock appreciation rights ("Limited SARs") at prices determined by the stock option committee, except for incentive stock options which are granted at the fair market value of the stock on the date of grant. Incentive options granted under the 1990 Plan become exercisable over a five year period while the date of exercise of non-statutory options is determined by the stock option committee. As of January 31, 1999, no SARs or Limited SARs had been granted under the 1990 Plan. Options granted under the 1985 Plan and the 1990 Plan expire 10 years from the date of grant, unless a shorter period is specified by the stock option committee.

In June 1995, the shareholders approved the 1995 Non-Employee Director's Non-Statutory Stock Option Plan. Under this plan, the Company grants non-employee members of its Board of Directors stock options upon their initial appointment to the board and then annually each year thereafter. Stock options, granted at the fair market value of the stock on the date of grant, are awarded to members upon their initial appointment and vest and become exercisable at a rate of 20% per year. Annual awards vest and become exercisable one year from the date of grant. The number of shares subject to options under this plan cannot exceed 100,000 and the options expire 10 years from the date of grant.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

A summary of the status of the Company's stock option plans is as follows:

	January 31,					
	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year . .	3,881,545	\$19.43	3,285,818	\$14.31	3,081,110	\$13.31
Granted . . . . .	1,661,400	40.27	1,643,400	26.65	1,112,000	16.27
Exercised . . . . .	(609,620)	14.24	(720,573)	13.23	(675,492)	13.11
Canceled . . . . .	(569,250)	28.68	(327,100)	17.57	(231,800)	13.72
Outstanding at year end . . . . .	4,364,075	26.88	3,881,545	19.43	3,285,818	14.31
Options exercisable at year end . .	768,425		601,895		576,862	
Available for grant at year end . . . .	3,496,000		4,588,000		905,000	

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 1/31/99	Weighted- Average Remaining Contractual Life (years)	Weighted- Average Exercise Price	Number Exercisable at 1/31/99	Weighted- Average Exercise Price
\$ 1.56 - 5.04 . . . . .	16,000	2.00	\$ 2.43	16,000	\$ 2.43
10.62 - 15.13 . . . . .	1,297,725	6.40	13.08	554,225	12.58
19.00 - 27.38 . . . . .	1,348,300	7.31	23.49	189,200	20.51
29.50 - 43.75 . . . . .	1,558,050	8.12	39.80	9,000	31.78
44.50 - 50.38 . . . . .	144,000	9.01	45.93	—	—
	4,364,075			768,425	

**Employee stock purchase plan**

Under the 1995 Employee Stock Purchase Plan, approved in June 1995, the Company is authorized to issue up to 1,000,000 shares of common stock to eligible employees in the Company's U.S. and Canadian subsidiaries. Under the terms of the plan, employees can choose to have a fixed dollar amount or percentage deducted from their bi-weekly compensation to purchase the Company's common stock and/or elect to purchase shares once per calendar quarter. The purchase price of the stock is 85% of the market value on the exercise date and employees are limited to a maximum purchase of \$25,000 fair market value each calendar year. Since plan inception, the Company has sold 182,449 shares as of January 31, 1999. All shares purchased under this plan must be retained for a period of one year.



**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Pro forma effect of stock compensation plans**

Had the compensation cost for the Company's stock option plans and employee stock purchase plan been determined based on the fair value at the grant dates for awards under the plans consistent with the method prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", the Company's net income and net income per common share on a pro forma basis would have been (in thousands, except per share data):

	Year ended January 31,		
	1999	1998	1997
Net income . . . . .	\$120,548	\$ 85,344	\$ 55,059
Net income per common share:			
Basic . . . . .	2.42	1.91	1.35
Diluted . . . . .	2.32	1.83	1.31

The preceding pro forma results were calculated with the use of the Black-Scholes option-pricing model. The following assumptions were used for the years ended January 31, 1999, 1998 and 1997, respectively: (1) risk-free interest rates of 5.68%, 6.76% and 6.08%; (2) dividend yield of 0.0% (3) expected lives of 5.00, 4.87 and 5.08 years; and (4) volatility of 65%, 56% and 56%. Results may vary depending on the assumptions applied within the model.

**Stock ownership and retirement savings plans**

In 1984 the Company established an employee stock ownership plan (the "ESOP") covering substantially all U.S. employees. The ESOP provides for distribution of vested percentages of the Company's common stock to participants. Such benefit becomes fully vested after seven years of qualified service. At January 31, 1999 and 1998, 813,000 and 780,000 shares, respectively, were held by the ESOP. The Company also offers its U.S. employees a retirement savings plan pursuant to section 401(k) of the Internal Revenue Code which provides for the Company to match 50% of the first \$1,000 of each participant's deferrals annually. Contributions to these plans are made in amounts approved annually by the Board of Directors. Aggregate contributions made by the Company to these plans were \$1,992,000, \$2,460,000 and \$2,090,000 for 1999, 1998 and 1997, respectively.

**NOTE 8 - CAPITAL STOCK:**

Each outstanding share of preferred stock is entitled to one vote on all matters submitted to a vote of shareholders, except for matters involving mergers, the sale of all Company assets, amendments to the Company's charter and exchanges of Company stock for stock of another company which require approval by a majority of each class of capital stock. In such matters, the preferred and common shareholders will each vote as a separate class.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES:**

**Operating leases**

The Company leases distribution facilities and certain equipment under noncancelable operating leases which expire at various dates through 2005. Future minimum lease payments under all such leases for the succeeding five fiscal years are as follows: 2000 - \$32,514,000; 2001 - \$28,857,000; 2002 - \$17,416,000; 2003 - \$13,019,000; 2004 - \$13,617,000; and \$106,000 thereafter. Rental expense for all operating leases amounted to \$27,015,000, \$15,704,000 and \$10,160,000 in 1999, 1998 and 1997, respectively.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 10 - SEGMENT INFORMATION:**

Effective for the period ended January 31, 1999, the Company has adopted the disclosure requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" which establishes standards for additional disclosure about operating segments for interim and annual financial statements. This standard requires financial and descriptive information be disclosed for segments whose operating results are reviewed by the chief operating officer for decisions on resource allocation. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

The Company operates predominantly in a single industry segment as a wholesale distributor of computer-based technology products and services. Based on geographic location, the Company has three principal segments. These geographical segments are 1) the United States, 2) Europe (includes the Middle East) and 3) Other International areas (Canada, Brazil, Argentina, Chile, Peru, Uruguay, and export sales to Latin America and the Caribbean from the U.S.). The measure of segment profit is income from operations. The accounting policies of the segments are the same as those described in Note 1 – Summary of Significant Accounting Policies.

Financial information by geographic segments is as follows (in thousands):

	<u>United States</u>	<u>Europe</u>	<u>Other International</u>	<u>Total</u>
<b><u>Fiscal year 1999</u></b>				
Net sales to unaffiliated customers . . . . .	<u>\$ 6,359,124</u>	<u>\$ 4,540,108</u>	<u>\$ 629,767</u>	<u>\$11,528,999</u>
Operating income . . . . .	<u>\$ 156,142</u>	<u>\$ 76,638</u>	<u>\$ 2,551</u>	<u>\$ 235,331</u>
Identifiable assets . . . . .	<u>\$ 1,555,325</u>	<u>\$ 2,112,546</u>	<u>\$ 177,116</u>	<u>\$ 3,844,987</u>
<b><u>Fiscal year 1998</u></b>				
Net sales to unaffiliated customers . . . . .	<u>\$ 5,434,833</u>	<u>\$ 1,148,036</u>	<u>\$ 473,750</u>	<u>\$ 7,056,619</u>
Operating income . . . . .	<u>\$ 148,485</u>	<u>\$ 20,122</u>	<u>\$ 4,031</u>	<u>\$ 172,638</u>
Identifiable assets . . . . .	<u>\$ 1,558,337</u>	<u>\$ 534,192</u>	<u>\$ 92,854</u>	<u>\$ 2,185,383</u>
<b><u>Fiscal year 1997</u></b>				
Net sales to unaffiliated customers . . . . .	<u>\$ 3,907,516</u>	<u>\$ 403,030</u>	<u>\$ 288,395</u>	<u>\$ 4,598,941</u>
Operating income . . . . .	<u>\$ 102,024</u>	<u>\$ 8,120</u>	<u>\$ 4,867</u>	<u>\$ 115,011</u>
Identifiable assets . . . . .	<u>\$ 1,326,531</u>	<u>\$ 151,012</u>	<u>\$ 67,751</u>	<u>\$ 1,545,294</u>

**NOTE 11 - UNAUDITED INTERIM FINANCIAL INFORMATION:**

	<u>Quarter ended</u>			
	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>	<u>January 31</u>
(In thousands, except per share amounts)				
<b><u>Fiscal year 1999</u></b>				
Net sales . . . . .	<u>\$2,184,366</u>	<u>\$2,213,261</u>	<u>\$3,278,401</u>	<u>\$3,852,971</u>
Gross profit . . . . .	<u>139,767</u>	<u>144,748</u>	<u>213,095</u>	<u>230,263</u>
Net income . . . . .	<u>23,105</u>	<u>35,279</u>	<u>34,088</u>	<u>36,480</u>
Net income per common share:				
Basic . . . . .	<u>.48</u>	<u>.73</u>	<u>.67</u>	<u>.71</u>
Diluted . . . . .	<u>.46</u>	<u>.70</u>	<u>.63</u>	<u>.67</u>

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

	<b>Quarter ended</b>			
	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>	<u>January 31</u>
<b><u>Fiscal year 1998</u></b>	(In thousands, except per share amounts)			
Net sales .....	\$ 1,370,146	\$ 1,551,820	\$ 2,021,479	\$ 2,113,174
Gross profit .....	95,177	103,978	129,342	137,249
Net income .....	18,222	21,464	23,673	26,126
Net income per common share:				
Basic .....	.42	.49	.54	.55
Diluted .....	.41	.47	.51	.53

## BOARD OF DIRECTORS

### **Steven A. Raymund**

Chairman of the Board of Directors  
and Chief Executive Officer

### **Charles E. Adair**

Partner, Cordova Ventures

### **Maximilian Ardelt**

Member of the Board of Management  
VIAG, AG

### **Daniel M. Doyle**

Former Chief Executive Officer  
Danka Business Systems PLC

### **Donald F. Dunn**

Former Chairman  
Maas Brothers/Jordan Marsh

### **Jeffery P. Howells**

Executive Vice President  
and Chief Financial Officer

### **Anthony A. Ibarguen**

President and Chief Operating Officer

### **Edward C. Raymund**

Chairman Emeritus

### **David M. Upton**

Professor of Business Administration  
Harvard Business School

### **John Y. Williams**

Managing Director  
Equity-South Advisors, LLC

## OFFICERS

### **Steven A. Raymund**

Chairman of the Board of Directors  
and Chief Executive Officer

### **Anthony A. Ibarguen**

President and Chief Operating Officer

### **Jeffery P. Howells**

Executive Vice President  
and Chief Financial Officer

### **Néstor Cano**

Executive Vice President of U.S.  
Sales and Marketing

### **H. John Lochow**

Executive Vice President  
of IT and Logistics

### **Timothy J. Curran**

Senior Vice President of U.S. Sales

### **Lawrence W. Hamilton**

Senior Vice President  
of Human Resources

### **Gerald M. Labie**

Senior Vice President  
of U.S. Marketing

### **Yuda Saydun**

Senior Vice President and  
General Manager – Latin America

### **Joseph B. Trepani**

Senior Vice President  
and Corporate Controller

### **Patrick O. Connelly**

Vice President  
of Credit Services

### **Charles V. Dannewitz**

Vice President of Taxes

### **Arthur W. Singleton**

Vice President, Treasurer  
and Secretary

### **David R. Vetter**

Vice President and General Counsel

## SUBSIDIARIES

### **Computer 2000 AG**

Wolfratshausen, Strasse 84  
81379 Munich  
Germany

### **Tech Data Canada Inc.**

6895 Columbus Road  
Mississauga, Ontario L5T 2G9  
Canada

### **Tech Data Education, Inc.**

5350 Tech Data Drive  
Clearwater, FL 33760

### **Tech Data Finance, Inc.**

Suite 295  
1655 No. Main Street  
Walnut Creek, CA 94596

### **Tech Data France, SNC**

Z.I. Les Vignes  
26, avenue Henri Barbusse  
F93012 Bobigny Cedex  
France

### **Tech Data Latin America**

8501 N.W. 17th Street, Suite 101  
Miami, FL 33126

### **Tech Data Pacific, Inc.**

5350 Tech Data Drive  
Clearwater, FL 33760

### **Tech Data Product Management, Inc.**

5350 Tech Data Drive  
Clearwater, FL 33760

## ANNUAL MEETING

The annual meeting of shareholders of the Company will be held at 4:30 p.m. on Tuesday, June 22, 1999, at Tech Data's headquarters: 5350 Tech Data Drive, Clearwater, FL 33760, 727-539-7429.

## INVESTOR RELATIONS

Tech Data Corporation welcomes inquiries from its shareholders and other interested investors. For further information on the activities of the Company, additional copies of this report, or other financial information, please contact our Investor Relations department at 800-237-8931, ext. 75855 or through e-mail at [ir@techdata.com](mailto:ir@techdata.com). Additionally, information is available through the Company's World Wide Web site at [www.techdata.com](http://www.techdata.com). Quarterly earnings information is available through the Company's fax-on demand service by calling 800-758-5804, ext. 841125.

## TRANSFER AGENT

Communications regarding lost stock certificates and address changes should be directed to our transfer agent, ChaseMellon Shareholder Services.

### **ChaseMellon Shareholder Services**

Four Station Square, Third Floor  
Pittsburgh, PA 15219  
(800) 756-3353

## SECURITIES COUNSEL

Schifino & Fleischer, P.A.  
Tampa, FL

## INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP  
Tampa, FL

## STOCK LISTING

The Company's common stock is traded on The Nasdaq Stock Market under the symbol TECD.

**Tech Data Corporation**  
5350 Tech Data Drive, Clearwater, Florida 33760  
[www.techdata.com](http://www.techdata.com)



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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

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(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the fiscal year ended January 31, 1999

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-14625

### TECH DATA CORPORATION

(Exact name of registrant as specified in its charter)

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**Florida**

(State or other jurisdiction  
of incorporation or organization)

**No. 59-1578329**

(I.R.S. Employer Identification Number)

**5350 Tech Data Drive, Clearwater, FL**

(Address of principal executive offices)

**33760**

(Zip Code)

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**Registrant's telephone number including area code: (727) 539-7429**

**Securities registered pursuant to Section 12(g) of the Act:**

Common stock, par value \$.0015 per share.

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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of regulation S-K is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference to Part III of this Form 10-K or any amendment to this Form 10-K.

Aggregate market value of the voting stock held by non-affiliates of the registrant as of March 31, 1999: \$1,080,900,000

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at March 31, 1999</u>
Common stock, par value \$.0015 per share	51,139,048

#### DOCUMENTS INCORPORATED BY REFERENCE

The registrant's Proxy Statement for use at the Annual Meeting of Shareholders on June 22, 1999 is incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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## PART I

### ITEM 1. *Business*

#### Overview

Tech Data Corporation ("Tech Data" or the "Company") was incorporated in 1974 to market data processing supplies such as tape, disk packs, and custom and stock tab forms for mini and mainframe computers directly to end users. In 1984, the Company began marketing certain of its products to the newly emerging market of microcomputer dealers and had withdrawn entirely from end-user sales, broadened its product line to include hardware products, and completed its transition to a wholesale distributor. The Company has since continually expanded its product lines, customer base and geographical presence.

On May 31, 1989, the Company entered the Canadian market through the acquisition of a distributor subsequently named Tech Data Canada Inc. ("Tech Data Canada"). Tech Data Canada serves customers in all Canadian provinces.

On March 24, 1994, the Company completed the non-cash exchange of 1,144,000 shares of its common stock for all of the outstanding capital stock of Softmart International, S.A. (subsequently named Tech Data France, SNC) ("Tech Data France"), a privately-held distributor of personal computer products based in Paris, France. Tech Data France is one of the largest wholesale distributors of microcomputer products in France, representing leading manufacturers and publishers such as Compaq, Hewlett-Packard, IBM, Lotus and Microsoft.

To complement its Miami-based Latin American export business, the Company opened a 33,000 square-foot distribution center near São Paulo, Brazil in February 1997.

Tech Data expanded its European presence by acquiring a controlling interest in Macrotron AG ("Macrotron"), a leading publicly held distributor of personal computer products based in Munich, Germany, on July 1, 1997. Macrotron's product line included such leading vendors as 3Com, Canon, Compaq, Corel, Epson, Hewlett-Packard, IBM, Intel, Microsoft, Sony and Toshiba.

Approximately one year later, in July 1998, Tech Data completed the acquisition of 83% of the voting common stock of Computer 2000 AG ("Computer 2000"), Europe's leading technology products distributor. With a presence in significant geographic markets in Europe, the Middle East and Latin America, the purchase of Computer 2000 propelled Tech Data's reach into over 30 countries worldwide. As a result of this initial purchase, subsequent tender offer, open market purchases and private purchase transactions, the Company currently owns approximately 99.3% of Computer 2000's outstanding stock. Computer 2000's product line includes such leading vendors as Apple, Cisco, Compaq, Epson, Hewlett-Packard, IBM, Intel, Microsoft, 3Com, and Toshiba.

With technology reseller customers in Germany, Switzerland and Austria, Computer 2000 had significant market overlap with Macrotron. As a result of this overlap, as well as the challenge of integrating two large competitors in the Germanic market, Tech Data chose to sell its majority interest in Macrotron effective on July 1, 1998. Tech Data owned 99% and 91% of Macrotron's outstanding common and preferred stock, respectively, at the time of the sale and recorded a \$15.7 million pretax gain on the transaction (see Note 2 of Notes to Consolidated Financial Statements).

Tech Data Corporation is the world's second largest distributor of microcomputer hardware and software products to value-added resellers ("VARs"), corporate resellers, retailers, direct marketers and internet resellers (collectively with VARs, "customers"). Tech Data distributes products throughout the United States, Canada, the Caribbean, Latin America, Europe and the Middle East. The Company purchases its products directly from more than 1,000 manufacturers of microcomputer hardware and publishers of software in large quantities, maintains a stocking inventory of more than 75,000 products and sells to an active base of over 100,000 customers. The Company's broad assortment of vendors and products meets the customers' need for a cost effective link to those vendors' products offered through a single source.

The Company provides its customers with leading products including systems, peripherals, networking and software, which accounted for 25%, 42%, 18% and 15%, respectively, of sales in fiscal 1999. The Company offers products from manufacturers and publishers such as Cisco, Compaq, Creative Labs, Epson, Hewlett-Packard, IBM, Intel, Iomega, Microsoft, Nortel Networks, Novell, Okidata, Symantec, 3Com, Toshiba, Viewsonic and Western Digital. The Company generally ships products the same day the orders are received from regionally located distribution centers. The customers are provided with a high-level of service through the Company's pre- and post-sale technical support, electronic commerce tools (including on-line order entry, product configuration services and electronic data interchange ("EDI") services), customized shipping documents and flexible financing programs.

## **Industry**

The wholesale distribution model, like that provided by the Company, has proven to be well-suited for both manufacturers and publishers of microcomputer products ("vendors") and resellers of those products. The large number and diversity of resellers makes it cost efficient for vendors to rely on wholesale distributors which can leverage distribution costs across multiple vendors who outsource a portion of their distribution, credit, marketing and support services. Similarly, due to the large number of vendors and products, resellers often cannot or choose not to establish direct purchasing relationships. Instead they rely on wholesale distributors, such as Tech Data, which can leverage purchasing costs across multiple resellers to satisfy a significant portion of their product procurement and delivery, financing, marketing and technical support needs.

The Company believes that the rates of growth of the wholesale distribution segment of the microcomputer industry and the Company continue to outpace that of the microcomputer industry as a whole for three principal reasons. First, as a result of the use of open systems and off-the-shelf components, hardware and software products are increasingly viewed as commodities. The resulting price competition coupled with rising selling costs and shorter product life cycles, make it difficult for manufacturers and publishers to efficiently sell directly to resellers and has prompted them to rely on more cost-efficient methods of distribution. Second, resellers are increasingly relying on wholesale distributors such as Tech Data for product availability and flexible financing alternatives rather than stocking large inventories themselves and maintaining credit lines to finance working capital needs. Third, restrictions by certain major manufacturers on sales through wholesale distributors were gradually eased commencing in 1991. Since the beginning of 1995, the Company has been able to sell certain of those manufacturers' products under more competitive terms and conditions ("open-sourcing"). Historically, these previously restricted product lines were sold by master resellers, or aggregators, (whose business model was similar to wholesale distributors, but focused on relatively few product lines) to a network of franchise dealers. Open-sourcing has virtually eliminated any advantage that these aggregators enjoyed as a result of the exclusive arrangements. In addition, consolidation in the wholesale distribution industry continues as economies of scale and access to financial resources become more critical. Larger distributors, like the Company, that have been able to utilize economies of scale to lower costs and pass on the savings to its customers in the form of reduced prices have continued to take market share.

A number of emerging industry trends are providing new opportunities and challenges for Tech Data. The advent of the direct sales model and other industry developments has led many manufacturers and distributors to reevaluate their business models. Leading systems manufacturers are introducing new policies, processes, terms and conditions as part of their overall effort to reduce costs and improve efficiency. Some manufacturers are moving toward assemble-to-order business models instead of the traditional "build-to-forecast" approach that requires forecasting market demand and manufacturing a broad range of systems based on these projections. Under this model, systems are assembled upon demand and shipped from distribution centers across the world. The success of this new model will be driven by the extent to which reseller and manufacturer partners embrace the model and choose to make changes to their traditional way of doing business.

Consolidation represents a major industry trend in recent years as many distributors have either exited the market or been purchased by larger players. The Company believes that the dynamics of the wholesale distribution industry favor the largest distributors, such as Tech Data, which have access to financing and are able to achieve economies of scale and breadth of geographic coverage.

As resellers continue to seek ways to reduce costs and improve efficiencies, distributors are responding with a variety of new value-added services. Tech Data's ability to provide a "virtual warehouse" of products for resellers means that they no longer need to hold inventory. Configuration and assembly services can be employed to customize systems. Private Label Delivery can ensure the product arrives at the customer as if it was shipped directly from the reseller. The emergence of the Internet, and consequently Internet resellers, has created one of the industry's fastest-growing business segments. These resellers, which sell mainly on price and availability, present a new set of challenges such as advanced use of electronic commerce capabilities.

The increasing utilization of electronic ordering and information delivery systems, including the ability to transact business over the World Wide Web has had and is expected to continue to have a significant impact on the cost efficiency of the wholesale distribution industry. Distributors, such as Tech Data, with the financial and technical resources to develop, implement and operate state-of-the-art management information systems have been able to reduce both their customers' and their own transaction costs through more efficient purchasing and lower selling costs.

In summary, microcomputer distribution is experiencing rapid growth and consolidation, creating an environment in which market share and the resulting cost efficiencies are critical.

## **Business Strategy**

Tech Data, as the world's second largest distributor of microcomputer products, believes that its infrastructure and the size of its operation position it to gain share in its current markets as well as continue its expansion into new geographic markets. The Company's size and performance have allowed it to make significant investments in personnel, management information systems, distribution centers and other capital resources. The Company provides a broad array of products and services for its resellers, which allows them to satisfy their needs from a single source. The Company's competitive advantage is the result of its low cost structure, investment in sophisticated management information systems and its access to capital to finance growth.

To maintain and enhance its leadership position in wholesale distribution, the Company's business strategy includes the following main elements:

***Maintain low cost and efficient operations.*** The Company has pursued a strategy of profitable revenue growth by providing its customers with the benefit of operating efficiencies achieved through centralized management and control, stringent cost controls and automation. The Company strictly controls selling, general and administrative expenses; utilizes its highly automated order placement and processing systems to efficiently manage inventory and shipments and to reduce transaction costs; and realizes economies of scale in product purchasing, financing and working capital management. The Company has been successful in reducing selling, general and administrative expenses as a percentage of net sales from 6.81% for the fiscal year ended January 31, 1992 to 4.27% for the fiscal year ended January 31, 1999.

***Leverage management information systems.*** In order to further improve its operating efficiencies and services to its resellers, the Company invested approximately \$30 million in a scaleable, state-of-the-art computer information system which was implemented in December 1994. This system, which currently supports the Company's U.S. and Canadian operations and Latin American export operations, provides the Company operating efficiencies and allows the Company to offer additional services such as expansion of its electronic commerce capabilities, including electronic data interchange and order entry over the Company's World Wide Web site. Electronic commerce generates significant cost savings and operational efficiencies for Tech Data and its customers. By the fourth quarter of fiscal 1999, approximately 25% of the Company's U.S. sales dollar volume originated from orders received electronically over the Company's World Wide Web site or other links such as EDI. The Company believes that growth in its electronic commerce capabilities will provide incremental economies of scale and further reduce transaction costs.

**Offer a broad and balanced product mix.** The Company offers its resellers a broad assortment of leading technology products. Currently, the Company offers more than 75,000 products from more than 1,000 manufacturers and publishers. By offering a broad product assortment, the Company can benefit from its resellers' objective to procure product more efficiently by reducing the number of their direct vendor relationships. The Company is continually broadening its product assortment to ensure it provides its customers with the latest technology products. The Company maintains a balanced product line of systems, peripherals, networking products and software to minimize the effects of fluctuation in supply and demand.

**Foster customer loyalty through superior customer service.** Tech Data's sales force provides superior customer service through a dedicated team approach in order to differentiate itself from its competitors and foster customer loyalty. The Company provides services such as flexible customer financing and credit programs, a suite of electronic commerce tools (including electronic order entry and access to product specifications), pre- and post-sale technical support, products configuration, customized shipping documents, flexible product return policies and customer education programs. The Company believes its strategy of not competing with its customer base also promotes customer loyalty.

**Broaden geographic coverage through international expansion.** The Company plans to take advantage of its strong financial position, vendor relationships and distribution expertise to continue to expand its business in the markets it currently serves and additional markets. The Company's expansion strategy focuses on identifying companies with significant market positions and quality management teams in markets where there is developed or emerging demand for microcomputer products. Following expansion into a new market, Tech Data enhances its market share by providing capital, adding new product lines, competitively pricing its products and delivering value-added services. The Company's operations have expanded from its North American focus to include Europe with the acquisition in 1994 of France's largest wholesale microcomputer distributor. In February 1997, the Company continued its international expansion through the development of an in-country subsidiary which stocks and distributes products in Brazil. The Company's purchase of Computer 2000 AG, Germany's largest distributor, in July 1998 established the Company as the leading European distributor, as well as strengthened its position in Latin America.

## **Vendor Relations**

The Company's strong financial and industry positions have enabled it to obtain contracts with most leading manufacturers and publishers. The Company purchases products directly from more than 1,000 manufacturers and publishers, generally on a nonexclusive basis. The Company's vendor agreements are believed to be in the form customarily used by each manufacturer and typically contain provisions which allow termination by either party upon 60 days notice. Generally, the Company's supplier agreements do not require it to sell a specified quantity of products or restrict the Company from selling similar products manufactured by competitors. Consequently, the Company has the flexibility to terminate or curtail sales of one product line in favor of another product line as a result of technological change, pricing considerations, product availability, customer demand and vendor distribution policies. Such agreements generally contain stock rotation and price protection provisions which, along with the Company's inventory management policies and practices, reduce the Company's risk of loss due to slow-moving inventory, vendor price reductions, product updates or obsolescence. Under the terms of many distribution agreements, suppliers will credit the distributor for declines in inventory value resulting from the supplier's price reductions if the distributor complies with certain conditions. In addition, under many such agreements, the distributor has the right to return for credit or exchange for other products a portion of those inventory items purchased, within a designated period of time. A supplier who elects to terminate a distribution agreement generally will repurchase from the distributor the supplier's products carried in the distributor's inventory. While the industry practices discussed above are sometimes not embodied in agreements and do not protect the Company in all cases from declines in inventory value, management believes that these practices provide a significant level of protection from such declines. No assurance can be given, however, that such practices will continue or that they will adequately protect the Company against declines in inventory value. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset Management."

Major computer systems manufacturers have begun to re-engineer their manufacturing processes whereby final assembly will be performed at the distribution level ("channel assembly") versus the current "build-to-forecast" methodology employed by these manufacturers. Tech Data expanded its TDEnsemble services over the past two years to include assemble-to-order capabilities on behalf of its manufacturing partners, in addition to resellers, seeking custom configuration of branded and unbranded systems. Tech Data was selected by Compaq, Hewlett-Packard and IBM to participate in their respective channel assembly initiatives. In addition to its own ISO 9002-certified centers in South Bend, Indiana and Swedesboro, New Jersey, Tech Data now offers custom-configuration at its *FactoryDirect* locations with Compaq in Houston, Texas and IBM in Research Triangle Park, North Carolina.

In addition to providing manufacturers and publishers with one of the largest bases of resellers in the United States, Canada, the Caribbean, Latin America, Europe and the Middle East, the Company also offers manufacturers and publishers the opportunity to participate in a number of special promotions, training programs and marketing services targeted to the needs of its resellers.

No single vendor accounted for more than 10% of the Company's net sales during fiscal 1999, 1998 or 1997, except sales of Compaq products which accounted for 13%, 13% and 12% of net sales in fiscal 1999, 1998 and 1997, respectively, and sales of Hewlett-Packard products which accounted for 18% and 13% of net sales in fiscal 1999 and 1998, respectively.

### **Customers, Products and Services**

The Company sells more than 75,000 microcomputer products including systems, peripherals, networking and software purchased directly from manufacturers and publishers in large quantities for sale to an active reseller base of more than 100,000 VARs, corporate resellers, direct marketers, retailers and Internet resellers.

The Company's VARs typically do not have the resources to establish a large number of direct purchasing relationships or stock significant product inventories. This market is attractive because VARs, which constituted approximately 56% of Tech Data's net sales in fiscal 1999, generally rely on distributors as their principal source of computer products and financing. Corporate resellers, retailers, direct marketers and internet resellers may establish direct relationships with manufacturers and publishers for their more popular products, but utilize distributors as the primary source for other product requirements and the alternative source for products acquired direct. The Company's Tech Data Elect Program provides cost-plus pricing on certain high volume products, primarily computer systems and printers, and other special terms to target corporate resellers. Corporate resellers constituted approximately 26% of the Company's net sales in fiscal 1999. Tech Data also has developed special programs to meet the unique needs of retail, direct marketers and internet resellers, which customers constituted approximately 18% of the Company's net sales in fiscal 1999. No single customer accounted for more than 5% of the Company's net sales during fiscal 1999, 1998 or 1997.

The Company pursues a strategy of continually expanding its product line to offer its customers a broad assortment of the latest technology products. From time to time, the demand for certain products sold by the Company exceeds the supply available from the manufacturer or publisher. The Company then receives an allocation of the products available. Management believes that the Company's ability to compete is not adversely affected by these periodic shortages and the resulting allocations.

Tech Data provides resellers a high-level of service through the Company's pre- and post-sale technical support, suite of electronic commerce tools (including on-line order entry and EDI services), customized shipping documents, product configuration services and flexible financing programs.

The Company delivers products throughout the United States, Canada, the Caribbean, Latin America, Europe and the Middle East from its 35 regionally located distribution centers. Locating distribution centers near its customers enables the Company to deliver products on a timely basis, thereby reducing customers' need to invest in inventory. See Item 2 - Properties for further discussion of the Company's locations and distribution centers.

## **Sales and Electronic Commerce**

Currently, the Company's sales force consists of approximately 2,000 field and inside telemarketing sales representatives. Field sales representatives are located in major metropolitan areas. Each field representative is supported by inside telemarketing sales teams covering a designated territory. The Company's team concept provides a strong personal relationship between representatives of the customers and Tech Data. Territories with no field representation are serviced exclusively by the inside telemarketing sales teams. Customers typically call their inside sales teams on dedicated toll-free numbers or contact the Company through various electronic methods to place orders. If the product is in stock and the customer has available credit, customer orders are generally shipped the same day from the distribution facility nearest the customer.

Increasingly, customers rely upon the Company's electronic ordering and information systems, in addition to its product catalogs and frequent mailings as sources for product information, including prices. The Company's on-line computer system allows the inside sales teams to check for current stocking levels in each of the six United States distribution centers. Likewise, inside sales teams in Canada, the Caribbean, Latin America, Europe and the Middle East can check on stocking levels in their respective distribution centers. Through "Tech Data On-Line", the Company's proprietary electronic on-line system, U.S. customers can gain remote access to the Company's data processing system to check product availability and pricing and to place an order. Certain of the Company's larger customers have available EDI services whereby orders, order acknowledgments, invoices, inventory status reports, customized pricing information and other industry standard EDI transactions are consummated on-line which improves efficiency and timeliness for both the Company and the customers. In 1998, the Company launched order entry capability over the Company's World Wide Web site. By the fourth quarter of fiscal 1999 approximately 25% of the Company's U.S. sales dollar volume originated from orders received electronically and web orders were reaching approximately \$2 million per day.

The Company provides comprehensive training to its field and inside sales representatives regarding technical characteristics of products and the Company's policies and procedures. In addition, the Company's ongoing training program is supplemented by product seminars offered daily by manufacturers and publishers.

## **Competition**

The Company operates in a market characterized by intense competition. Competition within the industry is based on product availability, credit availability, price, delivery and various services and support provided by the distributor to the customer. The Company believes that it is equipped to compete effectively with other distributors in these areas. Major competitors include Ingram Micro, Inc. and CHS Electronics, Inc., as well as a variety of smaller distributors. The only competitor larger than the Company is Ingram Micro, Inc.

The Company also competes with manufacturers and publishers who sell directly to resellers and end-users. The Company nevertheless believes that in the majority of cases, manufacturers and publishers choose to sell products through distributors rather than directly because of the relatively small volume and high selling costs associated with numerous small orders. Management also believes that the Company's prompt delivery of products and efficient handling of returns provide an important competitive advantage over manufacturers' and publishers' efforts to market their products directly.

## **Employees**

On January 31, 1999, the Company had approximately 8,240 employees located as follows: United States – 3,600, Europe – 4,185, and all other regions - 455. Certain of the Company's employees in Europe are subject to collective bargaining or similar arrangements. The Company considers its relations with its employees to be good.



## Foreign and domestic operations and export sales

The Company operates predominantly in a single industry segment as a wholesale distributor of computer-based technology products and services. That is, the principal markets, products and services and methods of distribution from which each segment derives its revenues are essentially the same. The principal geographical areas in which the Company operates are the United States, Europe (including the Middle East) and other international areas which include Canada, Brazil, Argentina, Chile, Peru, Uruguay and export sales to Latin America and the Caribbean from the U.S. In 1999, 1998 and 1997, 45%, 23% and 15%, respectively, of the Company's sales were derived from sales outside of the U.S.

See Note 10 of Notes to Consolidated Financial Statements for further information regarding the geographical distribution of the Company's net sales, operating income and identifiable assets.

### Executive Officers

**Steven A. Raymund, Chairman of the Board of Directors and Chief Executive Officer**, age 43, has been employed by the Company since 1981, serving as Chief Executive Officer since January 1986 and as Chairman of the Board of Directors since April 1991. In 1998, Mr. Raymund was appointed Chairman of the Computer 2000 Management Board. He has a B.S. Degree in Economics from the University of Oregon and a Masters Degree from the Georgetown University School of Foreign Service.

**Anthony A. Ibargüen, President and Chief Operating Officer**, age 39, joined the Company in September 1996 as President of the Americas and was appointed President and Chief Operating Officer in March 1997. In 1998, Mr. Ibargüen was appointed to the Company's Board of Directors and to the Supervisory Board of Computer 2000. Prior to joining the Company, he was employed by ENTEX Information Services, Inc. from August 1993 to August 1996 as Executive Vice President of Sales and Marketing. From June 1990 to August 1993, he was employed by JWP, Inc. most recently as a Vice President. Mr. Ibargüen holds a B.S. Degree in Marketing from Boston College and a Masters in Business Administration Degree from Harvard University.

**Jeffery P. Howells, Executive Vice President and Chief Financial Officer**, age 42, joined the Company in October 1991 as Vice President of Finance and assumed the responsibilities of Chief Financial Officer in March 1992. In March 1993, he was promoted to Senior Vice President and Chief Financial Officer and was promoted to Executive Vice President and Chief Financial Officer in March 1997. In 1998, Mr. Howells was appointed to the Company's Board of Directors and to the Supervisory Board of Computer 2000. From June 1991 through September 1991 he was employed as Vice President of Finance of Inex Vision Systems. From July 1979 to May 1991 he was employed by Price Waterhouse. Mr. Howells is a Certified Public Accountant and holds a B.B.A. Degree in Accounting from Stetson University.

**Néstor Cano, Executive Vice President of U.S. Sales and Marketing**, age 35, joined the Company in July 1998 as a result of the Company's acquisition of Computer 2000. In March 1999, he was appointed Executive Vice President of U.S. Sales and Marketing. Prior to his appointment in the U.S., Mr. Cano served in various management positions with Computer 2000 from 1989 to 1998, most recently as Regional Managing Director of Spain and Portugal. Mr. Cano holds an Engineering Degree from Barcelona University.

**H. John Lochow, Executive Vice President of Information Technology and Logistics**, age 46, joined the Company in February 1998 as Senior Vice President and Chief Information Officer and in February 1999 was promoted to Executive Vice President of Information Technology and Logistics. Prior to joining the Company, he served as Chief Information Officer at Bell Canada and Chief Executive of their international subsidiary Bell Sygma from 1996 to February 1998. From 1994 to 1996, he was employed by AT&T Capital Corporation as Vice President of Systems and New Business Development and from 1989 to 1994 he was employed by CNA Insurance Companies as Vice President of Systems. Mr. Lochow holds a B.A. Degree in Mathematics from Thomas Edison University.

**Peggy K. Caldwell, Senior Vice President of Marketing**, age 53, joined the Company in May 1992. Prior to joining the Company, she was employed by International Business Machines Corporation for 25 years, most recently serving in a variety of senior management positions in the National Distribution Division. Ms. Caldwell holds a B.S. Degree in Mathematics and Physics from Bucknell University. Ms. Caldwell retired from the Company on January 31, 1999.

**Timothy J. Curran, Senior Vice President of U.S. Sales**, age 47, joined the Company in April 1997. Prior to joining the Company, he was employed by Panasonic Communications and Systems Company (including various other Panasonic affiliates) from 1983 to 1997 serving in a variety of senior management positions. Mr. Curran holds a B.A. Degree in History from the University of Notre Dame and a Ph.D. in International Relations from Columbia University.

**Lawrence W. Hamilton, Senior Vice President of Human Resources**, age 41, joined the Company in August 1993 as Vice President of Human Resources and was promoted to Senior Vice President in March 1996. Prior to joining the Company, he was employed by Bristol-Myers Squibb Company from 1985 to August 1993, most recently as Vice President - Human Resources and Administration of Linvatec Corporation (a division of Bristol-Myers Squibb Company). Mr. Hamilton holds a B.A. Degree in Political Science from Fisk University and a Masters of Public Administration, Labor Policy from the University of Alabama.

**Gerald M. Labie, Senior Vice President of U.S. Marketing**, age 55, joined the Company in November 1997 as President and Managing Director of European Operations and was appointed Senior Vice President of U.S. Marketing in February 1999. Prior to joining the Company, he was employed by Corporate Software Inc. from 1989 to 1997, most recently serving in the role of Senior Vice President and General Manager, Europe. Mr. Labie holds a B.A. Degree from Alfred University.

**Yuda Saydun, Senior Vice President and General Manager - Latin America**, age 46, joined the Company in May 1993 as Vice President and General Manager - Latin America. In March 1997 he was promoted to Senior Vice President and General Manager - Latin America. Prior to joining the Company, he was employed by American Express Travel Related Services Company, Inc. from 1982 to May 1993, most recently as Division Vice President, Cardmember Marketing. Mr. Saydun holds a B.S. Degree in Political and Diplomatic Sciences from Universite Libre de Bruxelles and a Masters of Business Administration Degree, Finance/Marketing from U.C.L.A.

**Joseph B. Trepani, Senior Vice President and Corporate Controller**, age 38, joined the Company in March 1990 as Controller and held the position of Director of Operations from October 1991 through January 1995. In February 1995, he was promoted to Vice President and Worldwide Controller and to Senior Vice President and Corporate Controller in March 1998. Prior to joining the Company, Mr. Trepani was Vice President of Finance for Action Staffing, Inc. from July 1989 to February 1990. From 1982 to June 1989, he was employed by Price Waterhouse. Mr. Trepani is a Certified Public Accountant and holds a B.S. Degree in Accounting from Florida State University.

**Patrick O. Connelly, Vice President of Credit Services**, age 53, joined the Company in August 1994. Prior to joining the Company, he was employed by Unisys Corporation for nine years as Worldwide Director of Credit. Mr. Connelly holds a B.A. Degree in History and French from the University of Texas at Austin.

**Charles V. Dannewitz, Vice President of Taxes**, age 44, joined the Company in February 1995. Prior to joining the Company, he was employed by Price Waterhouse for 13 years, most recently as a Tax Partner. Mr. Dannewitz is a Certified Public Accountant and holds a B.S. Degree in Accounting from Illinois Wesleyan University.

**Arthur W. Singleton, Vice President, Treasurer and Secretary**, age 38, joined the Company in January 1990 as Director of Finance and was appointed Treasurer and Secretary in April 1991. In February 1995, he was promoted to Vice President, Treasurer and Secretary. Prior to joining the Company, Mr. Singleton was employed by Price Waterhouse from 1982 to December 1989. Mr. Singleton is a Certified Public Accountant and holds a B.S. Degree in Accounting from Florida State University.

**David R. Vetter, Vice President and General Counsel**, age 40, joined the Company in June 1993. Prior to joining the Company, he was employed by the law firm of Robbins, Gaynor & Bronstein, P.A. from 1984 to June 1993, most recently as a partner. Mr. Vetter is a member of the Florida Bar and holds a B.A. Degree in English and Economics from Bucknell University and a J.D. Degree from the University of Florida.

## ITEM 2. *Properties*

Tech Data's executive offices are located in Clearwater, Florida. The Company operates a total of 35 distribution centers to provide its customers timely delivery of products. These distribution centers are located in the following principal markets: U.S. – 6, Canada – 2, Latin America –5, Europe – 21 and the Middle East - 1. In addition to the above distribution centers, the Company operates two distribution facilities in the U.S. which are located within the manufacturing facilities of Compaq and IBM in connection with the Company's *FactoryDirect* program (see Vendor Relations). The Company also operates training centers in nine cities in the U.S.

The facilities of the Company are substantially utilized, well maintained and are adequate to conduct the Company's current business.

## ITEM 3. *Legal Proceedings*

There are no material legal proceedings pending against the Company.

## ITEM 4. *Submission of Matters to a Vote of Security Holders*

There have been no matters submitted to a vote of security holders during the last quarter of the fiscal year ended January 31, 1999.

## PART II

## ITEM 5. *Market for the Registrant's Common Stock and Related Shareholder Matters*

The Company's common stock is traded on the Nasdaq Stock Market under the symbol TECD. The Company has not paid cash dividends since fiscal 1983. The Board of Directors does not intend to institute a cash dividend payment policy in the foreseeable future. The table below presents the quarterly high and low sales prices for the Company's common stock as reported by The Nasdaq Stock Market. The approximate number of shareholders as of January 31, 1999 was 30,000.

	Sales Price	
	High	Low
<b><u>Fiscal year 1999</u></b>		
Fourth quarter	\$44 1/2	\$26 5/8
Third quarter	53 1/8	36 3/4
Second quarter	49 7/8	33 3/4
First quarter	50 5/8	36 1/8
<b><u>Fiscal year 1998</u></b>		
Fourth quarter	\$47 3/4	\$34 1/8
Third quarter	51 3/4	36 1/4
Second quarter	39 15/16	22 7/8
First quarter	27 1/2	19 3/4

**ITEM 6. Selected Financial Data****FIVE YEAR FINANCIAL SUMMARY  
(In thousands, except per share data)**

	Year ended January 31,				
	1999	1998	1997	1996	1995
<b>Income statement data:</b>					
Net sales	\$ 11,528,999	\$ 7,056,619	\$ 4,598,941	\$ 3,086,620	\$ 2,418,410
Cost and expenses:					
Cost of products sold	10,801,126	6,590,873	4,277,160	2,867,226	2,219,122
Selling, general and administrative expenses	492,542	293,108	206,770	163,790	127,951
	<u>11,293,668</u>	<u>6,883,981</u>	<u>4,483,930</u>	<u>3,031,016</u>	<u>2,347,073</u>
Operating profit	235,331	172,638	115,011	55,604	71,337
Interest expense	44,988	29,908	21,522	20,086	13,761
Gain on the sale of Macrotron AG	15,700	—	—	—	—
Income before income taxes	206,043	142,730	93,489	35,518	57,576
Provision for income taxes	76,215	52,816	36,516	13,977	22,664
Income before minority interest	129,828	89,914	56,973	21,541	34,912
Minority interest	876	429	—	—	—
Net income	<u>\$ 128,952</u>	<u>\$ 89,485</u>	<u>\$ 56,973</u>	<u>\$ 21,541</u>	<u>\$ 34,912</u>
Net income per common share:					
Basic	<u>\$ 2.59</u>	<u>\$ 2.00</u>	<u>\$ 1.39</u>	<u>\$ .57</u>	<u>\$ .92</u>
Diluted	<u>\$ 2.47</u>	<u>\$ 1.92</u>	<u>\$ 1.35</u>	<u>\$ .56</u>	<u>\$ .91</u>
Weighted average common shares outstanding:					
Basic	<u>49,727</u>	<u>44,715</u>	<u>40,870</u>	<u>37,846</u>	<u>37,758</u>
Diluted	<u>54,161</u>	<u>46,610</u>	<u>42,125</u>	<u>38,138</u>	<u>38,258</u>
Dividends per common share	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Balance sheet data:</b>					
Working capital	\$ 725,057	\$ 537,381	\$ 351,993	\$ 201,704	\$ 182,802
Total assets	3,844,987	2,185,383	1,545,294	1,043,879	784,429
Revolving credit loans	817,870	540,177	396,391	283,100	304,784
Long-term debt	308,521	8,683	8,896	9,097	9,682
Shareholders' equity	967,291	702,588	438,381	285,698	260,826

## ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth the percentage of cost and expenses to net sales derived from the Company's Consolidated Statement of Income for each of the three most recent fiscal years.

	Percentage of net sales		
	Year ended January 31,		
	1999	1998	1997
Net sales	100.0%	100.0%	100.0%
Cost and expenses:			
Cost of products sold	93.7	93.4	93.0
Selling, general and administrative expenses	4.3	4.2	4.5
	<u>98.0</u>	<u>97.6</u>	<u>97.5</u>
Operating profit	2.0	2.4	2.5
Interest expense	.4	.4	.5
Gain on sale of Macrotron AG	.2	-	-
Income before income taxes	1.8	2.0	2.0
Provision for income taxes	.7	.7	.8
Income before minority interest	1.1	1.3	1.2
Minority interest	-	-	-
Net income	<u>1.1%</u>	<u>1.3%</u>	<u>1.2%</u>

### Fiscal Years Ended January 31, 1999 and 1998

Net sales increased 63.4% to \$11.5 billion in fiscal 1999 compared to \$7.1 billion in the prior year. This increase is attributable to the acquisition of Computer 2000 AG ("Computer 2000"), as well as the addition of new product lines and the expansion of existing product lines. Sales for the fiscal year ended January 31, 1999 include six months of results for Computer 2000, in which the Company acquired a controlling interest in July 1998, and include six months of results for Macrotron AG, which was acquired in July 1997 and sold in July 1998. The Company's U.S., Europe and other international sales grew 17.0%, 295.5% and 32.9%, respectively, in fiscal 1999 compared to the prior year. The significant growth in the Company's international sales is attributable to the acquisition of Computer 2000. Excluding the effect of acquisitions and dispositions, sales growth rates in fiscal 1999 were approximately 17%, 27% and 15% in the U.S., Europe and other international areas, respectively. Total international sales in fiscal 1999 represent approximately 45% of consolidated net sales compared with 23% in the prior year.

The cost of products sold as a percentage of net sales increased from 93.4% in fiscal 1998 to 93.7% in fiscal 1999. This increase is a result of competitive market prices and the Company's strategy of lowering selling prices in order to gain market share and to pass on the benefit of operating efficiencies to its customers.

Selling, general and administrative expenses increased 68.0% from \$293.1 million in fiscal 1998 to \$492.5 million in fiscal 1999, and as a percentage of net sales increased to 4.3% in fiscal 1999 from 4.2% in the prior year. The increase in selling, general and administrative expenses is attributable to the acquisitions of Macrotron and Computer 2000, increases in amortization of intangibles as well as other operating expenses needed to support the increased volume of business.

As a result of the factors described above, operating profit in fiscal 1999 increased 36.3% to \$235.3 million, or 2.0% of net sales, compared to \$172.6 million, or 2.4% of net sales, in fiscal 1998. A factor contributing to the decrease in the operating profit margin from 2.4% in fiscal 1998 to 2.0% in fiscal 1999, was ongoing competitive pricing pressure experienced by the Company in its U.S. business. Additionally contributing to this decrease was the Company's more significant presence in Europe in fiscal 1999, principally as a result of the Computer 2000 acquisition. Operating margins in Europe are typically lower than the Company's U.S. business as a result of higher costs, partially offset by better asset turnover.

Interest expense increased due to an increase in the Company's average outstanding indebtedness related to funding the acquisition of Computer 2000, funding for continued growth and capital expenditures. The increase in interest expense was partially offset in fiscal 1999 by decreases in average short-term interest rates on the Company's floating rate indebtedness.

The Company's results of operations in fiscal 1999 include a pretax gain of \$15.7 million (\$9.6 million net of income taxes) related to the July 1998 sale of Macrotron AG.

The Company's average income tax rate was 37.0% for fiscal 1999 and fiscal 1998.

Net income in fiscal 1999 increased 44.1% to \$129.0 million, or \$2.47 per diluted share, compared to \$89.5 million, or \$1.92 per diluted share, in the prior year. Excluding the gain on the sale of Macrotron, net income increased 33.4% to \$119.4 million, or \$2.29 per diluted share.

### **Fiscal Years Ended January 31, 1998 and 1997**

Net sales increased 53.4% to \$7.1 billion in fiscal 1998 compared to \$4.6 billion in the prior year. This increase is attributable to the acquisition of Macrotron AG, the addition of new product lines and the expansion of existing product lines combined with an increase in the Company's market share. The Company's U.S. and international sales grew 39.1% and 134.6% respectively, in fiscal 1998 compared to the prior year. The significant growth in the Company's international sales is attributable to the acquisition of Macrotron AG, in which the Company acquired a controlling interest on July 1, 1997. The Company's international sales in fiscal 1998 were approximately 23% of consolidated net sales compared with 15% in the prior year.

The cost of products sold as a percentage of net sales increased from 93.0% in fiscal 1997 to 93.4% in fiscal 1998. This increase is a result of competitive market prices and the Company's strategy of lowering selling prices in order to gain market share and to pass on the benefit of operating efficiencies to its customers.

Selling, general and administrative expenses increased 41.8% from \$206.8 million in fiscal 1997 to \$293.1 million in fiscal 1998, and as a percentage of net sales decreased to 4.2% in fiscal 1998 from 4.5% in the prior year. This decline in selling, general and administrative expenses as a percentage of net sales is attributable to greater economies of scale the Company realized during fiscal 1998 in addition to improved operating efficiencies. The dollar value increase in selling, general and administrative expenses is attributable to the acquisition of Macrotron AG and the expanded employment and increases in other operating expenses needed to support the increased volume of business.

As a result of the factors described above, operating profit in fiscal 1998 increased 50.1% to \$172.6 million, or 2.4% of net sales, compared to \$115.0 million, or 2.5% of net sales, in fiscal 1997. A factor contributing to the decrease in the operating profit margin from 2.5% in fiscal 1997 to 2.4% in fiscal 1998 was the acquisition of Macrotron AG. Macrotron's operating model employs a lower operating profit margin due to its higher asset turnover, as compared to the Company's U.S. business.

Interest expense increased due to an increase in the Company's average outstanding indebtedness related to funding continued growth, the acquisition of Macrotron AG and capital expenditures. The increase in interest expense was partially offset in fiscal 1998 by decreases in short-term interest rates on the Company's floating rate indebtedness and by the receipt of net proceeds of approximately \$149 million from the Company's November 1997 common stock offering which were used to reduce indebtedness.

The Company's average income tax rate declined to 37.0% for fiscal 1998 as compared to 39.1% for fiscal 1997. This reduction primarily is the result of a larger portion of the Company's income being subject to lower state income tax jurisdictions.

Net income in fiscal 1998 increased 57.1% to \$89.5 million, or \$1.92 per diluted share, compared to \$57.0 million, or \$1.35 per diluted share, in the prior year.

### **Recent Accounting Pronouncements**

In March 1998, the Accounting Standards Executive Committee issued Statement of position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective for fiscal years beginning after December 15, 1998. The Company has elected early



implementation of provisions of SOP 98-1 effective for the year ended June 15, 1999. This statement requires capitalization of certain costs relating to computer software developed or obtained for internal use. The impact of adoption was not material to the Company's consolidated financial statements.

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, the type of the hedge transaction. The ineffective portion of all hedge transactions will be recognized in the current-period earnings. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The future impact of this statement on the Company's results of operations is not expected to be material.

### **Impact of Inflation**

The Company has not been adversely affected by inflation as technological advances and competition within the microcomputer industry has generally caused prices of the products sold by the Company to decline. Management believes that any price increases could be passed on to its customers, as prices charged by the Company are not set by long-term contracts.

### **Liquidity and Capital Resources**

Net cash provided by operating activities of \$43.5 million in fiscal 1999 was primarily attributable to income from operations of \$129.0 million combined with an increase in accounts payable partially offset by increases in accounts receivable and inventories.

Net cash provided by investing activities of \$60.2 million in fiscal 1999 was attributable to receipt of \$227.8 million in proceeds from the sale of Macrotron (see Note 9 of Notes to Consolidated Financial Statements) offset by \$115.0 million related to the acquisition of Computer 2000 and the Company's continuing investment of \$47.8 million in its management information systems, office facilities and its distribution center facilities and \$4.9 million in software development costs. The Company expects to make capital expenditures of approximately \$75 - \$100 million during fiscal 2000 to further expand its management information systems, office facilities and distribution centers.

Net cash used in financing activities of \$97.8 million in fiscal 1999 reflects the net repayments under the Company's revolving credit loans of \$114.1 million partially offset by proceeds from stock option exercises (including the related income tax benefit) of \$16.5 million.

The Company currently maintains domestic and foreign revolving credit agreements which provide maximum short-term borrowings of approximately \$1.35 billion (including local country credit lines), of which \$818 million was outstanding at January 31, 1999. The Company believes that cash from operations, available and obtainable bank credit lines and trade credit from its vendors will be sufficient to satisfy its working capital and capital expenditure needs through fiscal 2000.

### **Asset Management**

The Company manages its inventories by maintaining sufficient quantities to achieve high order fill rates while attempting to stock only those products in high demand with a rapid turnover rate. Inventory balances fluctuate as the Company adds new product lines and when appropriate, makes large purchases, including cash purchases from manufacturers and publishers when the terms of such purchases are considered advantageous. The Company's contracts with most of its vendors provide price protection and stock rotation privileges to reduce the risk of loss due to manufacturer price reductions and slow moving or obsolete inventory. In the event of a vendor price reduction, the Company generally receives a credit for the impact on products in inventory. In addition, the Company has the right to rotate a certain percentage of purchases, subject to certain limitations. Historically, price protection and stock rotation privileges as well as the Company's inventory management procedures have helped to reduce the risk of loss of carrying inventory.

The Company attempts to control losses on credit sales by closely monitoring customers' creditworthiness through its computer system which contains detailed information on each customer's payment history and other relevant information. The Company has obtained credit insurance which insures a percentage of the credit extended by the Company to certain of its larger domestic and international customers against possible loss. Customers who qualify for credit terms are typically granted net 30-day payment terms. The Company also sells products on a prepay, credit card, cash on delivery and floorplan basis.

## **Year 2000**

### Introduction

The "Year 2000 Problem" arose because many existing computer programs use only the last two digits to refer to a year. Therefore, these computer programs do not properly recognize a year that begins with "20" instead of the familiar "19." If not corrected, many computer applications could fail or create erroneous results. The problems created by using abbreviated dates appear in hardware (such as microchips), operating systems and other software programs. The Company's Year 2000 ("Y2K") compliance project is intended to determine the readiness of the Company's business for the Year 2000. The Company defines Y2K "compliance" to mean that the computer code will process all defined future dates properly and give accurate results.

### Description of Areas of Impact and Risk

The Company has identified four areas where the Y2K problem creates risk to the Company. These areas are: a) internal Information Technology ("IT") systems; b) non-IT systems with embedded chip technology; c) system capabilities of third party businesses with relationships with the Company, including product suppliers, customers, service providers (such as telephone, power, logistics, financial services) and other businesses whose failure to be Y2K compliant could have a material adverse effect on the Company's business, financial condition or results of operations; and d) product liability claims arising out of the non-performance of computer products distributed by the Company.

### Plan to Address Year 2000 Compliance

In August 1997, the Company formed a Year 2000 compliance project team and began developing an overall plan to address Y2K readiness issues. This plan includes five phases as follows: Phase I is to create an inventory of the Company's IT systems, non-IT systems and service providers (each of these being referred to as "business components") that need to be analyzed for Y2K compliance. During Phase I, a priority is established so that the Company will first address the most important business components to determine Y2K readiness. Phase II analyzes the identified business components to determine which of the business components in the inventory require additional effort to be Y2K compliant. Phase III is the repair, modification or replacement of business components which the analysis determines are not Y2K compliant ("remediation"). Phase IV consists of various types of testing to confirm that the remediation process has resulted in the business components being Y2K compliant. Phase V is the development of contingency plans to address potential risks that the Y2K compliance project may not fully address.

### State of Readiness

IT Systems – U.S. and Canada- The Company is in Phase III and Phase IV of the Year 2000 project overall. As testing and remediation progress, the inventory and test plans are refined. Approximately 76% of all identified IT system business components in the U.S. have been deemed to be Y2K compliant as of April 15, 1999 with analysis of the remaining 24% continuing. Of the 24% remaining, remediation will be completed by re-writing and upgrading key software application systems to incorporate Y2K compliance.

Functional testing of individual components of the Company's business critical applications has been completed. Fully integrated tests of these individual components will continue with completion targeted in September 1999. Completion of full integration testing has moved from July to September in order to provide adequate time to complete all remediation of business critical applications outside the mainframe environment and the technology refresh described in the next paragraph.

The expected completion of the testing and remediation of the Company's desktop hardware and software systems is October 1999. The Company is addressing the Y2K compliance of these systems by acceleration of a previously planned desktop technology refresh during which systems that are not Y2K compliant will be replaced. Internal resources have been reallocated and external resources have been secured to address these issues by the planned completion dates. Full integration testing can be completed only after the applications and systems outside the mainframe environment have also been remediated.

The on-line portion of the DCS software system (the Company's system performing the primary business functions of sales order entry, billing, purchasing, distribution and inventory control) has been determined to be compliant for the following dates: January 1, February 29, December 31, 2000. Remaining batch processing portions of the DCS system is still in progress. User acceptance testing for all portions of the DCS system is targeted to begin June 1999. In addition to the Company's internal resources, outside consultants have been secured to focus exclusively on the DCS environment.

IT Systems – Outside the U.S. and Canada - The Company's subsidiaries located outside of the U.S. and Canada are currently focusing on Phase III and Phase IV tasks of the Year 2000 project. As of March 29, 1999, approximately 59% of the identified critical business components of all countries have been determined to be Y2K compliant. Each country is separately reporting on its progress, with central coordination and management provided by the Y2K compliance project team.

For the subsidiaries of Computer 2000 ("C2000"), country locations are divided into two core areas: those using the SAP R/2 system (the Company's system performing the primary business functions of sales, order entry, billing, purchasing, distribution and inventory control) and those that use other systems to provide these business processes. The majority of the countries use the SAP R/2 system. The version of SAP R/2 in use by C2000, has received certification from TUV, a German governmental independent testing authority, that it is Y2K compliant. C2000 is testing these elements and the custom modifications it has to the system, with completion of this testing scheduled for completion in September 1999. This testing incorporates related subsystems and key client/server and desktop systems.

For those countries using non SAP R/2 systems, conversion to SAP R/2 or upgrades to a compliant system are being implemented or the system is being determined to be Y2K compliant by certification by the vendor and internal C2000 testing. In France, the Company is consolidating the operations of its Tech Data subsidiary with C2000's subsidiary. As part of this consolidation, SAP R/2 systems will be replaced with currently existing enterprise systems that are not Y2K compliant. For this reason, additional project phases have been identified which will require the conversion of operations in France to a single, Y2K compliant, enterprise system. Conversion of this system is scheduled to begin in July 1999.

Non-IT systems - The non-IT systems (devices which store and report date-related information, such as access control systems, elevators, conveyors and other items containing a microprocessor or internal clock) are utilizing the phased plan approach for the IT systems. Phase I inventory and prioritization has been completed for non-IT systems in the U.S. and in connection with the Company's acquisition of Computer 2000, is currently being conducted in the Company's worldwide locations. Phase II analysis is being performed on systems material to the Company's operations with the assistance of the Company's vendors, with completion expected in July 1999. Implementation of Phases III and IV will continue through August 1999. The Company currently plans to complete the Y2K compliance program for all material non-IT systems by the end of October 1999.

Material Third Parties - The Company relies on third party suppliers for many systems, products and services. The Company will be adversely affected if these third parties are not Y2K compliant. The Company continues to solicit, receive and review responses to surveys sent to those third parties determined to be material to the operations of the Company to determine their Y2K readiness. For those critical third parties that fail to respond to the Company's survey, the Company is pursuing alternative means of obtaining Y2K readiness information and is conducting reviews of publicly available information published by such third parties.

Product Liability - The Company does not make any representations or warranties that the products it distributes are or will be Y2K-ready or compliant. In certain countries where the Company or its subsidiaries distribute products, the Company may have an obligation to accept returns of products, which fail because the product is not Y2K ready. In most cases, these returns may be passed on to the manufacturer. In those countries where product return obligations may exist, the Company plans to carefully review manufacturer representations regarding products that are sold in material volumes by the Company or its subsidiaries.

#### Cost of Project

The Company has incurred approximately \$3.1 million through January 31, 1999 on the Y2K compliance effort, excluding compensation and benefit costs for associates who do not work full-time on the Y2K project and costs of systems upgrades that would have normally been made on similar timetable. The overall cost of the Y2K compliance effort cannot be accurately estimated until all inventory and analysis phases associated with the recent acquisition of Computer 2000 have been completed, however, the Company believes the costs will be approximately \$9.1 million.

#### Contingency Planning and Risks

The Company has begun contingency planning for some of its critical applications and will be developing additional contingency plans as testing determines the necessity. While the Company believes that its approach to Y2K readiness is sound, it is possible that some business components are not identified in the inventory, or that the scanning or testing process does not result in analysis and remediation of all source code. The Company will assume a third party is not Y2K ready if no survey response or an inadequate survey response is received. The Company's contingency plan will address alternative providers and processes to deal with business interruptions that may be caused by internal system or third party providers failure to be Y2K ready to the extent it is possible.

The failure to correct a material Y2K problem could result in an interruption in, or a failure of, certain normal business activities or operations. Such failure could materially and adversely affect the Company's operations and therefore, could materially and adversely affect the Company's results of operations, liquidity and financial condition. In addition, the Company's operating results could be materially adversely affected if it were to be held responsible for the failure of any products sold by the Company to be Y2K ready despite the Company's disclaimer of product warranties and the limitation of liability contained in its sales terms and conditions.

#### Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union commenced a conversion from their existing sovereign currencies to a new, single currency called the euro. Fixed conversion rates between the existing currencies, the legacy currencies, and the euro were established and the euro became the common legal currency of the participating countries on this date. The euro now trades on currency exchanges and is available for non-cash transactions. The participants will now issue sovereign debt exclusively in euro and have redenominated all outstanding sovereign debt. Following this introduction period, the participating members legacy currencies will remain legal tender as denominations of euro until January 1, 2002. At that time, countries will issue new euro-denominated bills for use in cash transactions. All legacy currency will be withdrawn prior to July 1, 2002 completing the euro conversion on this date. As of January 1, 1999, the participating countries no longer control their own monetary policies by directing independent interest rates for the legacy currencies, and instead, the authority to direct monetary policy, including money supply and official interest rates for the euro, is exercised by the new European Central Bank.

The Company has implemented a plan to address the issues raised by the euro conversion. These issues include, but are not limited to; the competitive impact created by cross-border price transparency; the need for the Company and its business partners to adapt IT and non-IT systems to accommodate euro-demoninated transactions; and the need to analyze the legal and contractual implications of the Company's contracts. The Company currently anticipates that the required modifications to its systems, equipment and processes will be made on a timely basis and does not expect that the costs of such modifications will have a material effect on the Company's financial position or results of operations.

Since the implementation of the euro on January 1, 1999, the Company has experienced improved efficiencies in its cash management program in Europe and has been able to reduce certain hedging activities as a direct result of the conversion. The Company has not experienced any material adverse effects on its financial position or results of operations in connection with the initial roll-out of the euro currency.

## **Market Risk**

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

In addition to product sales and costs, the Company has foreign currency risk related to debt that is denominated in currencies other than the dollar and cross-currency swaps hedging intercompany debt. The Company's foreign currency risk management objective is to protect its earnings and cash flows resulting from sales, purchases and other transactions from the adverse impact of exchange rate movements. Foreign exchange risk is managed by using forward, option and swap contracts to hedge intercompany loans, receivables and payables. Hedged transactions are denominated primarily in Belgian Franc, Danish Krone, French Franc, Spanish Peseta, Finnish Markka, Norwegian Krone, German Mark, Swedish Krona, Swiss Franc and British Pound.

The Company is exposed to changes in interest rates primarily as a result of its short and long-term debt used to maintain liquidity and finance inventory, capital expenditures and business expansion. Interest rate risk is also present in the cross-currency swaps hedging intercompany and third-party loans. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve its objectives the Company uses a combination of fixed- and variable-rate debt. As of January 31, 1999, approximately 49% of the outstanding debt had fixed interest rates. The Company finances working capital needs through various bank loans and commercial paper programs.

Foreign exchange and interest rate risk and related derivatives use is monitored using a variety of techniques including periodic reviews of market value and sensitivity analyses. The Company's computations are based on interrelationships between currencies and interest rates. These interrelationships are determined by observing foreign currency market changes and interest rate changes over the preceding 90 days. The value of foreign currency options does not change on a one-to-one basis with changes in the underlying currency rate. The model includes all of the Company's forwards, options and interest rate swaps. The Company believes that the hypothetical fluctuation in fair value of its derivatives would be offset by increases/decreases in the value of the underlying transactions being hedged.

## **Comments on Forward-Looking Information**

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company has filed an Exhibit 99A which outlines cautionary statements and identifies important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements made by, or on behalf of, the Company. Such forward-looking statements, as made within Items 1 and 7 of this Form 10-K, should be considered in conjunction with the aforementioned Exhibit 99A.

**ITEM 8. Financial Statements and Supplementary Data**

**Index to Financial Statements**

	<u>Page</u>
<b>Financial Statements</b>	
Report of Independent Certified Public Accountants .....	20
Report of Management .....	20
Consolidated Balance Sheet at January 31, 1999 and 1998.....	21
Consolidated Statement of Income for the three years ended January 31, 1999 .....	22
Consolidated Statement of Changes in Shareholders' Equity for the three years ended January 31, 1999 .....	22
Consolidated Statement of Cash Flows for the three years ended January 31, 1999.....	23
Notes to Consolidated Financial Statements.....	24
<b>Financial Statement Schedule</b>	
Report of Independent Certified Public Accountants on Financial Statement Schedule .....	41
Schedule II. -- Valuation and qualifying accounts.....	42

All schedules and exhibits not included are not applicable, not required or would contain information which is shown in the financial statements or notes thereto.



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Tech Data Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Tech Data Corporation and its subsidiaries at January 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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 provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP  
Tampa, Florida  
March 19, 1999

## REPORT OF MANAGEMENT

To Our Shareholders:

The management of Tech Data Corporation is responsible for the preparation, integrity and objectivity of the consolidated financial statements and related financial information contained in this Annual Report. The financial statements have been prepared by the Company in accordance with generally accepted accounting principles and, in the judgment of management, present fairly and consistently the Company's financial position and results of operations. The financial statements and other financial information in this report include amounts that are based on management's best estimates and judgments and give due consideration to materiality.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The design, monitoring and revisions of the system of internal accounting controls involves, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures.

The Audit Committee of the Board of Directors is responsible for recommending to the Board the independent certified public accounting firm to be retained each year. The Audit committee meets periodically with the independent accountants and management to review their performance and confirm that they are properly discharging their responsibilities. The independent accountants have direct access to the Audit Committee to discuss the scope and results of their work, the adequacy of internal accounting controls and the quality of financial reporting.

Steven A. Raymund  
Chairman of the Board of Directors  
and Chief Executive Officer  
March 19, 1999

Jeffery P. Howells  
Executive Vice President  
and Chief Financial Officer

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
(In thousands, except share amounts)

	January 31,	
	1999	1998
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,615	\$ 2,749
Accounts receivable, less allowance of \$60,521 and \$29,731	1,796,045	909,426
Inventories	1,369,351	1,028,367
Prepaid and other assets	113,952	65,843
Total current assets	3,287,963	2,006,385
Property and equipment, net	126,537	100,562
Excess of cost over acquired net assets, net	345,326	55,460
Other assets, net	85,161	22,976
	<b>\$3,844,987</b>	<b>\$2,185,383</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving credit loans	\$ 817,870	\$ 540,177
Accounts payable	1,503,866	850,866
Accrued expenses	241,170	77,961
Total current liabilities	2,562,906	1,469,004
Long-term debt	308,521	8,683
Total liabilities	2,871,427	1,477,687
Minority interest	6,269	5,108
	<b>\$3,844,987</b>	<b>\$2,185,383</b>
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, par value \$.02; 226,500 shares Authorized and issued; liquidation Preference \$.20 per share	5	5
Common stock, par value \$.0015; 200,000,000 shares authorized; 51,098,442 and 48,250,349 issued and outstanding	77	72
Additional paid-in capital	505,385	403,880
Retained earnings	428,720	299,768
Cumulative translation adjustment	33,104	(1,137)
Total shareholders' equity	967,291	702,588
	<b>\$3,844,987</b>	<b>\$2,185,383</b>

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
(In thousands, except per share amounts)

	Year ended January 31,		
	1999	1998	1997
Net sales	\$11,528,999	\$7,056,619	\$4,598,941
Cost and expenses:			
Cost of products sold	10,801,126	6,590,873	4,277,160
Selling, general and administrative expenses	492,542	293,108	206,770
	<u>11,293,668</u>	<u>6,883,981</u>	<u>4,483,930</u>
Operating profit	235,331	172,638	115,011
Interest expense	44,988	29,908	21,522
Gain on sale of Macrotron AG	15,700	-	-
Income before income taxes	206,043	142,730	93,489
Provision for income taxes	76,215	52,816	36,516
Income before minority interest	129,828	89,914	56,973
Minority interest	876	429	-
Net income	<u>\$ 128,952</u>	<u>\$ 89,485</u>	<u>\$ 56,973</u>
Net income per common share:			
Basic	<u>\$ 2.59</u>	<u>\$ 2.00</u>	<u>\$ 1.39</u>
Diluted	<u>\$ 2.47</u>	<u>\$ 1.92</u>	<u>\$ 1.35</u>
Weighted average common shares outstanding:			
Basic	<u>49,727</u>	<u>44,715</u>	<u>40,870</u>
Diluted	<u>54,161</u>	<u>46,610</u>	<u>42,125</u>

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Other Retained Earnings	Accumulated Total Comprehensive Income	Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance – January 31, 1996	227	\$5	37,931	\$57	\$130,045	\$153,310	\$ 2,281	\$285,698
Issuance of common stock for stock options exercised and related tax benefit			760	1	13,223			13,224
Issuance of common stock net of offering costs			4,600	7	83,309			83,316
Comprehensive Income						56,973	(830)	56,143
Balance – January 31, 1997	<u>227</u>	<u>5</u>	<u>43,291</u>	<u>65</u>	<u>226,577</u>	<u>210,283</u>	<u>1,451</u>	<u>438,381</u>
Issuance of common stock in business purchase			407	1	9,255			9,256
Issuance of common stock for stock options exercised and related tax benefit			861	1	19,077			19,078
Issuance of common stock net of offering costs			3,691	5	148,971			148,976
Comprehensive Income						89,485	(2,588)	86,897
Balance – January 31, 1998	<u>227</u>	<u>5</u>	<u>48,250</u>	<u>72</u>	<u>403,880</u>	<u>299,768</u>	<u>(1,137)</u>	<u>702,588</u>
Issuance of common stock in business purchase			2,196	3	84,964			84,967
Issuance of common stock for stock options exercised and related tax benefit			652	2	16,541			16,543
Comprehensive Income						128,952	34,241	163,193
Balance – January 31, 1999	<u>227</u>	<u>\$5</u>	<u>51,098</u>	<u>\$77</u>	<u>\$505,385</u>	<u>\$428,720</u>	<u>\$33,104</u>	<u>\$967,291</u>

The accompanying Notes to Consolidated Financial Statements are an  
integral part of these financial statements.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In thousands)

	Year ended January 31,		
	1999	1998	1997
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$11,094,731	\$6,870,096	\$4,390,916
Cash paid to suppliers and employees	(10,948,414)	(6,914,537)	(4,513,309)
Interest paid	(39,926)	(29,909)	(21,122)
Income taxes paid	(62,895)	(51,949)	(45,037)
Net cash provided by (used in) operating activities	<u>43,496</u>	<u>(126,299)</u>	<u>(188,552)</u>
<b>Cash flows from investing activities:</b>			
Acquisition of business, net of cash acquired	(115,000)	(68,136)	-
Sale of Macrotron AG	227,843	-	-
Expenditures for property and equipment	(47,796)	(45,900)	(19,229)
Software development costs	(4,856)	(2,216)	(2,024)
Net cash provided by (used in) investing activities	<u>60,191</u>	<u>(116,252)</u>	<u>(21,253)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of common stock	16,543	168,054	96,540
Net borrowings (repayments) from revolving credit loans	(114,151)	76,786	113,291
Principal payments on long-term debt	(213)	(201)	(519)
Net cash (used in) provided by financing activities	<u>(97,821)</u>	<u>244,639</u>	<u>209,312</u>
Net increase (decrease) in cash and cash equivalents	5,866	2,088	(493)
Cash and cash equivalents at beginning of year	2,749	661	1,154
Cash and cash equivalents at end of year	<u>\$ 8,615</u>	<u>\$ 2,749</u>	<u>\$ 661</u>
<b>Reconciliation of net income to net cash provided by (used in) operating activities:</b>			
Net income	<u>\$ 128,952</u>	<u>\$ 89,485</u>	<u>\$ 56,973</u>
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	42,605	26,364	20,011
Provision for losses on accounts receivable	34,810	22,634	19,648
Gain on sale of Macrotron AG	(15,700)	-	-
Loss on disposal of fixed assets	-	-	446
Deferred income taxes	500	3,720	(5,051)
Changes in assets and liabilities:			
(Increase) in accounts receivable	(434,268)	(183,481)	(208,025)
(Increase) in inventories	(49,830)	(181,393)	(294,552)
Decrease (increase) in prepaid and other assets	89,140	(8,317)	(13,962)
Increase in accounts payable	387,136	106,134	225,358
(Decrease) increase in accrued expenses	(139,849)	(1,445)	10,602
Total adjustments	<u>(85,456)</u>	<u>(215,784)</u>	<u>(245,525)</u>
Net cash provided by (used in) operating activities	<u>\$ 43,496</u>	<u>\$ (126,299)</u>	<u>\$ (188,552)</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Principles of consolidation**

The consolidated financial statements include the accounts of Tech Data Corporation and its subsidiaries ("Tech Data" or the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

**Method of accounting**

The Company prepares its financial statements in conformity with generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue recognition**

Sales are recorded upon shipment. The Company allows its customers to return product for exchange or credit subject to certain limitations. Provision for estimated losses on such returns are recorded at the time of sale (see product warranty below). Funds received from vendors for marketing programs and product rebates are accounted for as a reduction of selling, general and administrative expenses or product cost according to the nature of the program.

**Inventories**

Inventories (consisting of computer related hardware and software products) are stated at the lower of cost or market, cost being determined on the first-in, first-out (FIFO) method.

**Property and equipment**

Property and equipment are stated at cost. Depreciation is computed over the estimated economic lives (or lease period if shorter) using the following methods:

	<u>Method</u>	<u>Years</u>
Buildings and improvements	Straight-line	15 - 39
Leasehold improvements	Straight-line	2 - 10
Furniture, fixtures and equipment	Accelerated and straight-line	2 - 10

Expenditures for renewals and improvements that significantly add to productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to operations when incurred. When assets are sold or retired, the cost of the asset and the related accumulated depreciation are eliminated from the accounts and any gain or loss is recognized at such time.

**Long lived assets**

Long lived assets are reviewed for potential impairment at such time when events or changes in circumstances indicate that recovery of the asset is unlikely. Any impairment loss would be recognized when the sum of the expected, undiscounted future net cash flows is less than the carrying amount of the asset.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Excess of cost over acquired net assets**

The excess of cost over acquired net assets ("goodwill") is being amortized on a straight-line basis over 15 to 40 years. Amortization expense was \$5,714,000, \$1,458,000 and \$602,000 in 1999, 1998 and 1997, respectively. The accumulated amortization of goodwill is approximately \$8,651,000 and \$3,563,000 at January 31, 1999 and 1998, respectively.

**Intangibles**

Included within other assets at January 31, 1999 are certain intangible assets including deferred software costs and the allocation of a portion of the purchase price of Computer 2000 AG ("Computer 2000") to software used within the Computer 2000 entity and the value of the customer base acquired (see Note 2 – Acquisition and Disposition of Subsidiaries). Such deferred costs are being amortized over three to ten years with amortization expense of \$8,442,000, \$4,967,000 and \$4,611,000 in 1999, 1998 and 1997, respectively. The accumulated amortization of such costs was \$22,603,000 and \$14,160,000 at January 31, 1999 and 1998, respectively. The remaining unamortized balance of such costs was \$39,876,000 and \$17,894,000 at January 31, 1999 and 1998, respectively.

**Product warranty**

The Company's vendors generally warrant the products distributed by the Company and allow the Company to return defective products, including those that have been returned to the Company by its customers. The Company does not independently warrant the products it distributes; however, the Company does warrant the following: (1) services with regard to products configured for its customers, and (2) products it builds to order from components purchased from other sources. A provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. Warranty expense was not material to the Company's Consolidated Statement of Income.

**Income taxes**

Income taxes are accounted for under the liability method. Deferred taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred taxes have not been provided on the cumulative undistributed earnings of foreign subsidiaries or the cumulative translation adjustment related to those investments since such amounts are expected to be reinvested indefinitely.

**Foreign currency activities**

The assets and liabilities of foreign operations are translated at the exchange rates in effect at the balance sheet date, with the related translation gains or losses reported as a separate component of shareholders' equity. The results of foreign operations are translated at the weighted average exchange rates during the year. The Company recorded a net gain resulting from foreign currency transactions (including gains or losses on forward contracts) of \$5,027,000 for the year ended January 31, 1999. The foreign currency gains (losses) for the fiscal years ended January 31, 1998 and 1997 were immaterial.

**Concentration of credit risk**

The Company sells its products to a large base of value-added resellers ("VARs"), corporate resellers, retailers, direct marketers and internet resellers throughout the United States, Canada, the Caribbean, Latin America, Europe, and the Middle East. The Company also performs ongoing credit evaluations of its customers and generally does not require collateral. The Company has obtained credit insurance which insures a percentage of credit extended by the Company to certain of its larger domestic and international customers against possible loss. The Company makes provisions for estimated credit losses at the time of sale.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Derivative financial instruments**

The Company operates internationally with distribution facilities in various locations around the world. The Company reduces its exposure to fluctuations in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items being hedged. The majority of the Company's derivative financial instruments have terms of 180 days or less. The Company currently does not use derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

Derivative financial instruments are accounted for on an accrual basis. Income and expense are recorded in the same category as that arising from the related asset or liability being hedged. Gains and losses resulting from effective hedges of existing assets, liabilities or firm commitments are deferred and recognized when the offsetting gains and losses are recognized on the related hedged items.

The notional amount of forward exchange contracts and options is the amount of foreign currency bought or sold at maturity. The notional amount of currency interest rate swaps is the underlying principal and currency amounts used in determining the interest payments exchanged over the life of the swap. Notional amounts are indicative of the extent of the Company's involvement in the various types and uses of derivative financial instruments and are not a measure of the Company's exposure to credit or market risks through its use of derivatives. The estimated fair value of derivative financial instruments represents the amount required to enter into like off-setting contracts with similar remaining maturities based on quoted market prices.

The Company's derivative financial instruments outstanding at January 31, 1999 and 1998 are as follows (derivative instruments outstanding at January 31, 1997 were not material):

	January 31, 1999		January 31, 1998	
	Notional Amounts	Estimated Fair Value	Notional Amounts	Estimated Fair Value
	(In thousands)		(In thousands)	
Foreign exchange forward contracts	\$438,000	\$ 130	\$ 78,000	\$ 940
Purchased foreign currency options	60,000	90	500	(10 )
Currency interest rate swaps	329,000	(2,440 )	128,300	400

**Fair value of financial instruments**

Financial instruments (excluding derivative financial instruments) that are subject to fair value disclosure requirements are carried in the consolidated financial statements at amounts that approximate fair value. The carrying amount of debt outstanding pursuant to bank credit agreements approximates fair value as interest rates on these instruments approximate current market rates. The carrying amount of the convertible subordinated notes approximates fair value based upon available market information. Fair value is estimated based on discounted cash flows and available market information as well as other valuation techniques.

**Comprehensive income**

Effective for the fiscal year ended January 31, 1999 the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in the Company's consolidated financial statements. Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.



**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Company's balance of other comprehensive income is comprised exclusively of changes in the net cumulative translation adjustment. For the year ended January 31, 1999, the Company has recorded deferred income taxes related to the change in the cumulative translation adjustment of \$4,376,000. The deferred income taxes related to the cumulative translation adjustment for the years ended January 31, 1998 and 1997 was not significant.

**Stock-based compensation**

The Company has adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" ("SFAS 123"). As permitted by this pronouncement, the Company's measurement of compensation cost continues to be in accordance with the Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." In accordance with the requirements of SFAS 123, the appropriate pro forma disclosures relating to net income and earnings per share are provided. See Note 7 – Employee Benefit Plans.

**Net income per common share**

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the reported period. Diluted EPS reflects the potential dilution that could occur assuming the conversion of the convertible subordinated notes and exercise of the stock options using the if-converted and treasury stock methods, respectively. The composition of basic and diluted net income per common share is as follows:

	Year ended January 31, 1999			Year ended January 31, 1998			Year ended January 31, 1997		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
	(In thousands, except per share amounts)								
Net income per common Share – basic	\$128,952	49,727	<u>\$2.59</u>	\$89,485	44,715	<u>\$2.00</u>	\$56,973	40,870	<u>\$1.39</u>
Effect of dilutive securities:									
Stock options		1,767			1,895			1,255	
5% convertible subordinated notes	4,726	2,667		-	-		-	-	
Net income per common Share – diluted	<u>\$133,678</u>	<u>54,161</u>	<u>\$2.47</u>	<u>\$89,485</u>	<u>46,610</u>	<u>\$1.92</u>	<u>\$56,973</u>	<u>42,125</u>	<u>\$1.35</u>

At January 31, 1999, 1998 and 1997, there were 1,571,000, 98,000 and 26,000 shares, respectively, excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

**Cash management system**

Under the Company's cash management system, disbursements cleared by the bank are reimbursed on a daily basis from the revolving credit loans. As a result, checks issued but not yet presented to the bank are not considered reductions of cash or accounts payable. Included in accounts payable are \$95,185,000 and \$60,000,000 at January 31, 1999 and 1998 respectively, for which checks are outstanding.

**Statement of cash flows**

Short-term investments which have an original maturity of ninety days or less are considered cash equivalents in the statement of cash flows. The effect of changes in foreign exchange rates on cash balances is not material. See Note 2 of Notes to Consolidated Financial Statements regarding the non-cash exchange of common stock and convertible notes in connection with business combinations.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Fiscal year**

The Company and its North American subsidiaries operate on a fiscal year that ends on January 31. The Company consolidates its European and Latin American subsidiaries on a fiscal year that ends on December 31. The difference in year-end dates is primarily attributable to regulatory requirements imposed on the Company's foreign subsidiaries as well as timing of information requirements.

**Recent accounting pronouncements**

In March 1998, the Accounting Standards Executive Committee issued Statement of position ("SOP") 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective for fiscal years beginning after December 15, 1998. The Company has elected early implementation of provisions of SOP 98-1 effective for the year ended January 31, 1999. This statement requires capitalization of certain costs relating to computer software developed or obtained for internal use. The impact of adoption was not material to the Company's consolidated financial statements.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if so, the type of the hedge transaction. The ineffective portion of all hedge transactions will be recognized in the current-period earnings. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The future impact of this statement on the Company's results of operations is not expected to be material.

**NOTE 2 – ACQUISITION AND DISPOSITION OF SUBSIDIARIES:**

**Acquisition of Macrotron AG**

On July 1, 1997, the Company acquired approximately 77% of the voting common stock and 7% of the non-voting preferred stock of Macrotron AG ("Macrotron"), a distributor of personal computer products based in Munich, Germany. The initial acquisition was completed through an exchange of approximately \$26 million in cash and 406,586 shares of the Company's common stock, for a combined total value of \$35 million. The cash portion of the initial acquisition, the related tender offer and subsequent purchase of Macrotron's common and preferred stock were funded from the Company's revolving credit loan agreements. Prior to the disposition discussed below, the Company owned approximately 99% and 91% of Macrotron's common and preferred stock, respectively for a total purchase price of \$80,000,000.

The acquisition of Macrotron was accounted for under the purchase method. The purchase price allocation resulted in approximately \$53,500,000 in excess cost over the net fair market value of tangible assets acquired as of January 31, 1998 and was being amortized over a period of 20 years. Consistent with the Company's accounting policy for foreign subsidiaries, Macrotron's operations were consolidated into the Company's consolidated financial statements on a calendar year basis. Consequently, the Company's fiscal year ending January 31, 1998 includes Macrotron's operations for the six month period beginning July 1, 1997 and ending December 31, 1997.

**Disposition of Macrotron AG**

Effective July 1, 1998, pursuant to a Share Purchase Agreement dated June 10, 1998, the Company completed the sale of its majority interest in Munich-based subsidiary Macrotron AG ("Macrotron") to Ingram Micro, Inc. ("Ingram"). Tech Data owned 99% and 91% of Macrotron's outstanding common and preferred stock, respectively, at the time of the sale. The sale of Macrotron was completed through the receipt of approximately \$228,000,000 from Ingram (approximately \$100,000,000 for the Company's shares of Macrotron and the balance of \$128,000,000 for the repayment of Macrotron's intercompany indebtedness). The Company recorded a \$15,700,000 gain on the sale, of which \$3,200,000 was recorded in the fourth quarter due to resolution of certain contingencies.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Acquisition of Computer 2000 AG**

On July 1, 1998, Tech Data completed the acquisition of approximately 83% of the voting common stock of Computer 2000, a European distributor of technology products. The Company acquired 80% of the outstanding voting stock of Computer 2000 from its parent company, Klöckner & Co. AG., a subsidiary of Munich-based conglomerate VIAG AG, and an additional stake of approximately 3% of Computer 2000's shares from an institutional investor. The initial acquisition was completed through an exchange of approximately 2.2 million shares of Tech Data common stock and \$300,000,000 of 5% convertible subordinated notes, due 2003 (coupon rate of 5.0%, five year term and convertible into shares of common stock at \$56.25 per share). The purchase agreement is subject to certain contingent payments based upon future events. Any payments made by the Company relating to this contingency will increase the purchase price and will result in additional goodwill. The Company commenced a tender offer for the remaining C2000 shares and, as a result of this tender offer, open market purchases and private purchase transactions, the Company currently owns approximately 99.3% of Computer 2000's outstanding stock at January 31, 1999. The tender offer, open market purchases and private purchase transactions were funded through the Company's revolving credit loan agreements.

The acquisition of Computer 2000 was accounted for under the purchase method. The purchase price of approximately \$500,000,000 was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of net assets acquired of approximately \$319,000,000 (\$343,000,000 at year end exchange rates) is being amortized on a straight-line basis over 40 years. The final allocation of the purchase price has not been finalized due to various contingent liabilities identified by the Company including costs of restructuring. To the extent these liabilities are not fully incurred, the purchase price and related goodwill will be reduced accordingly.

The Company's subsidiaries outside of North America are included in its consolidated financial statements on a calendar basis. As such, the year ended January 31, 1999 includes six months results for Computer 2000 (which was acquired effective July 1, 1998) and includes six months of operating results for Macrotron (which was sold effective July 1, 1998).

**Pro forma information**

The following unaudited pro forma results of operations reflect the effect on the Company's operations as if the above described acquisition of Macrotron had occurred at the beginning of each of the periods presented below (in thousands, except per share amounts):

	<u>Year ended January 31,</u>	
	<u>1998</u>	<u>1997</u>
Net sales	\$7,623,852	\$5,571,406
Net income	90,161	60,716
Net income per common share:		
Basic	2.01	1.47
Diluted	1.93	1.43

The following unaudited pro forma results of operations reflect the effect on the Company's operations as if the above described acquisition of Computer 2000 and disposition of Macrotron had occurred at the beginning of each of the periods presented below:

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

	Year ended January 31,	
	<u>1999</u>	<u>1998</u>
Net sales	\$13,694,426	\$11,350,432
Net income	125,954	95,669
Net income per common share:		
Basic	2.48	2.04
Diluted	2.34	1.94

The unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisitions and dispositions noted above been consummated as of the beginning of the respective periods, nor are they necessarily indicative of future operating results.

**Non-cash transactions**

The Company issued 406,586 shares of common stock in conjunction with the purchase of Macrotron in July 1997. Additionally, the Company issued \$300,000,000 convertible subordinated notes and approximately 2,200,000 shares of common stock in conjunction with its acquisition of Computer 2000 in July 1998.

**NOTE 3 - PROPERTY AND EQUIPMENT:**

	January 31,	
	<u>1999</u>	<u>1998</u>
	(In thousands)	
Land	\$ 4,897	\$ 7,805
Buildings and improvements	36,995	36,543
Furniture, fixtures and equipment	156,414	112,821
Construction in progress	4,299	12,359
	<u>202,605</u>	<u>169,528</u>
Less-accumulated depreciation	<u>(76,068)</u>	<u>(68,966)</u>
	<u>\$126,537</u>	<u>\$100,562</u>

**NOTE 4 - REVOLVING CREDIT LOANS:**

	January 31,	
	<u>1999</u>	<u>1998</u>
	(In thousands)	
Receivables Securitization Program, average interest rate of 5.41% at January 31, 1999, expiring February 28, 2000	\$355,000	\$237,420
Multicurrency Revolving Credit Facility, average interest rate of 4.14% at January 31, 1999, expiring August 28, 2000	295,539	300,568
Other revolving credit facilities, various interest rates, expiring on various dates through 1999	<u>167,331</u>	<u>2,189</u>
	<u>\$817,870</u>	<u>\$540,177</u>

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Company has an agreement (the "Receivables Securitization Program") with three financial institutions that allows the Company to transfer an undivided interest in a designated pool of U.S. accounts receivable on an ongoing basis to provide borrowings up to a maximum of \$500,000,000. As collections reduce accounts receivable balances included in the pool, the Company may transfer interests in new receivables to bring the amount available to be borrowed up to the maximum. The Company pays interest on advances under the Receivables Securitization Program at a designated commercial paper rate, plus an agreed-upon margin.

Under the terms of the Company's Multicurrency Revolving Credit Facility with a syndicate of banks, the Company is able to borrow funds in sixteen major foreign currencies up to a maximum of \$550,000,000 on an unsecured basis. The Company pays interest on advances under this facility at the applicable eurocurrency rate plus a margin based on certain financial ratios. The Company can fix the interest rate for periods of 30 to 180 days under various interest rate options.

In addition to the facilities described above, the Company has additional lines of credit and overdraft facilities to support its worldwide operations. Most of these facilities are provided on an unsecured, short-term basis and are reviewed periodically for renewal. Under the covenants of the Company's Multicurrency Revolving Credit Facility, indebtedness outstanding under these facilities may not exceed \$300,000,000.

The Company's credit agreements contain warranties and covenants that must be complied with on a continuing basis, including the maintenance of certain financial ratios and restrictions on payment of dividends. At January 31, 1999, the Company was in compliance with all such covenants.

**NOTE 5 - LONG-TERM DEBT:**

	January 31,	
	1999	1998
	(In thousands)	
Mortgage note payable, interest at 10.25%, principal and interest of \$85,130 payable monthly, balloon payment due 2005	\$ 8,661	\$8,788
Mortgage note payable funded through Industrial Revenue Bond, interest at 6.90%, principal and interest payable quarterly, through 2000	22	108
Convertible subordinated debentures, interest at 5.00% payable semi-annually, due 2003	<u>300,000</u>	<u>—</u>
	<u>308,683</u>	<u>8,896</u>
Less - current maturities	<u>(162)</u>	<u>(213)</u>
	<u><u>\$308,521</u></u>	<u><u>\$8,683</u></u>

Principal maturities of long-term debt at January 31, 1999 for the succeeding five fiscal years are as follows: 2000 - \$162,000; 2001 - \$155,000; 2002 - \$172,000; 2003 - \$191,000; 2004 - \$300,211,000.

On July 1, 1998, the Company issued \$300,000,000 convertible subordinated notes due July 1, 2003. The notes bear interest at 5% per year and are convertible any time prior to maturity, unless previously redeemed or repurchased, into shares of common stock at a conversion rate of 17.777 shares per \$1,000 principal amount of notes, equivalent to a conversion price of approximately \$56.25 per share. The notes are convertible into approximately 5,300,000 shares of the Company's common stock. The notes are redeemable in whole or in part, at the option of the Company at any time on or after July 1, 2001. These notes are subordinated in right of payment to all senior indebtedness of the Company and will be effectively subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

Mortgage notes payable are guaranteed by property and equipment with an original cost of approximately \$12,000,000. The Industrial Revenue Bond contains covenants which require the Company to maintain certain financial ratios with which the Company was in compliance at January 31, 1999.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 6 - INCOME TAXES (in thousands):**

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

	January 31,	
	1999	1998
Deferred tax liabilities:		
Accelerated depreciation and amortization	\$ 19,821	\$10,519
Capitalized advertising program costs	2,174	1,630
Other – net	6,242	4,937
Total gross deferred tax liabilities	28,237	17,086
Deferred tax assets:		
Accruals not currently deductible	7,880	5,412
Reserves not currently deductible	22,777	21,290
Capitalized inventory costs	2,046	1,959
Foreign loss carryforwards	59,996	-
Other – net	8,934	371
Total gross deferred tax assets	101,633	29,032
Less: valuation allowance	(16,037)	-
Total net deferred tax assets	85,596	29,032
Net deferred tax asset (included in prepaid and other assets)	\$ 57,359	\$11,946

Significant components of the provision for income taxes are as follows:

	Year ended January 31,		
	1999	1998	1997
Current:			
Federal	\$50,153	\$39,805	\$32,485
State	6,816	2,469	5,897
Foreign	18,746	6,822	3,185
Total current	75,715	49,096	41,567
Deferred:			
Federal	(3,093)	3,328	(3,490)
State	(424)	507	(451)
Foreign	4,017	(115)	(1,110)
Total deferred	500	3,720	(5,051)
	\$76,215	\$52,816	\$36,516

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense is as follows:

	Year ended January 31,		
	1999	1998	1997
Tax at U.S. statutory rates	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	1.5	1.4	3.8
Other – net	.5	.6	.3
	37.0%	37.0%	39.1%

The components of pretax earnings are as follows:

	Year ended January 31,		
	1999	1998	1997
United States	\$140,850	\$126,757	\$88,536
Foreign	65,193	15,973	4,953
	\$206,043	\$142,730	\$93,489

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Company's foreign subsidiaries had deferred tax assets relating to net operating loss carryforwards of \$145 million. The majority of the net operating losses have an indefinite carryforward period with the remaining portion expiring in years 1999 through 2009. A valuation allowance of \$16 million has been recognized to offset the deferred tax assets relating to the net operating loss carryforwards.

The cumulative amount of undistributed earnings of international subsidiaries for which U.S. income taxes have not been provided was approximately \$59 million at January 31, 1999. It is not practical to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

**NOTE 7 - EMPLOYEE BENEFIT PLANS:**

**Stock compensation plans**

At January 31, 1999, the Company had three stock-based compensation plans, as well as an employee stock purchase plan, an employee stock ownership plan and a retirement savings plan, which are described below. The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its fixed stock option plans and its stock purchase plan.

**Fixed stock option plans**

In August 1985, the Board of Directors adopted the 1985 Incentive Stock Option Plan (the "1985 Plan"), which covers an aggregate of 1,050,000 shares of common stock. The options were granted to certain officers and key employees at or above fair market value; accordingly, no compensation expense has been recorded with respect to these options. Options are exercisable beginning two years from the date of grant only if the grantee is an employee of the Company at that time. No options may be granted under the 1985 Plan after July 31, 1995.

In June 1990, the shareholders approved the 1990 Incentive and Non-Statutory Stock Option Plan (the "1990 Plan") which covers an aggregate of 10,000,000 shares (as amended in June 1997) of common stock. The 1990 Plan provides for the granting of incentive and non-statutory stock options, stock appreciation rights ("SARs") and limited stock appreciation rights ("Limited SARs") at prices determined by the stock option committee, except for incentive stock options which are granted at the fair market value of the stock on the date of grant. Incentive options granted under the 1990 Plan become exercisable over a five year period while the date of exercise of non-statutory options is determined by the stock option committee. As of January 31, 1999, no SARs or Limited SARs had been granted under the 1990 Plan. Options granted under the 1985 Plan and the 1990 Plan expire 10 years from the date of grant, unless a shorter period is specified by the stock option committee.

In June 1995, the shareholders approved the 1995 Non-Employee Director's Non-Statutory Stock Option Plan. Under this plan, the Company grants non-employee members of its Board of Directors stock options upon their initial appointment to the board and then annually each year thereafter. Stock options, granted at the fair market value of the stock on the date of grant, are awarded to members upon their initial appointment and vest and become exercisable at a rate of 20% per year. Annual awards vest and become exercisable one year from the date of grant. The number of shares subject to options under this plan cannot exceed 100,000 and the options expire 10 years from the date of grant.



**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

A summary of the status of the Company's stock option plans is as follows:

	January 31, 1999		January 31, 1998		January 31, 1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,881,545	\$19.43	3,285,818	\$14.31	3,081,110	\$13.31
Granted	1,661,400	40.27	1,643,400	26.65	1,112,000	16.27
Exercised	(609,620)	14.24	(720,573)	13.23	(675,492)	13.11
Canceled	(569,250)	28.68	(327,100)	17.57	(231,800)	13.72
Outstanding at year end	<u>4,364,075</u>	26.88	<u>3,881,545</u>	19.43	<u>3,285,818</u>	14.31
Options exercisable at year end	768,425		601,895		576,862	
Available for grant at year end	3,496,000		4,588,000		905,000	

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 1/31/99	Weighted- Average Remaining Contractual Life (years)	Weighted- Average Exercise Price	Number Exercisable at 1/31/99	Weighted- Average Exercise Price
\$ 1.56 – 5.04	16,000	2.00	\$ 2.43	16,000	\$ 2.43
10.62 – 15.13	1,297,725	6.40	13.08	554,225	12.58
19.00 – 27.38	1,348,300	7.31	23.49	189,200	20.51
29.50 – 43.75	1,558,050	8.12	39.80	9,000	31.78
44.50 – 50.38	144,000	9.01	45.93	-	-
	<u>4,364,075</u>			<u>768,425</u>	

**Employee stock purchase plan**

Under the 1995 Employee Stock Purchase Plan approved in June 1995, the Company is authorized to issue up to 1,000,000 shares of common stock to eligible employees in the Company's U.S. and Canadian subsidiaries. Under the terms of the plan, employees can choose to have a fixed dollar amount or percentage deducted from their bi-weekly compensation to purchase the Company's common stock and/or elect to purchase shares once per calendar quarter. The purchase price of the stock is 85% of the market value on the exercise date and employees are limited to a maximum purchase of \$25,000 fair market value each calendar year. Since plan inception, the Company has sold 182,449 shares as of January 31, 1999. All shares purchased under this plan must be retained for a period of one year.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Pro forma effect of stock compensation plans**

Had the compensation cost for the Company's stock option plans and employee stock purchase plan been determined based on the fair value at the grant dates for awards under the plans consistent with the method prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", the Company's net income and net income per common share on a pro forma basis would have been (in thousands, except per share data):

	Year ended January 31,		
	1999	1998	1997
Net income	\$120,548	\$85,344	\$55,059
Net income per common share:			
Basic	2.42	1.91	1.35
Diluted	2.32	1.83	1.31

The preceding pro forma results were calculated with the use of the Black-Scholes option-pricing model. The following assumptions were used for the years ended January 31, 1999, 1998 and 1997, respectively: (1) risk-free interest rates of 5.68%, 6.76% and 6.08%; (2) dividend yield of 0.0%; (3) expected lives of 5.00, 4.87 and 5.08 years; and (4) volatility of 65%, 56% and 56%. Results may vary depending on the assumptions applied within the model.

**Stock ownership and retirement savings plans**

In 1984 the Company established an employee stock ownership plan (the "ESOP") covering substantially all U.S. employees. The ESOP provides for distribution of vested percentages of the Company's common stock to participants. Such benefit becomes fully vested after seven years of qualified service. At January 31, 1999 and 1998, 813,000 and 780,000 shares, respectively, were held by the ESOP. The Company also offers its U.S. employees a retirement savings plan pursuant to section 401(k) of the Internal Revenue Code which provides for the Company to match 50% of the first \$1,000 of each participant's deferrals annually. Contributions to these plans are made in amounts approved annually by the Board of Directors. Aggregate contributions made by the Company to these plans were \$1,992,000, \$2,460,000 and \$2,090,000 for 1999, 1998 and 1997, respectively.

**NOTE 8 - CAPITAL STOCK:**

Each outstanding share of preferred stock is entitled to one vote on all matters submitted to a vote of shareholders, except for matters involving mergers, the sale of all Company assets, amendments to the Company's charter and exchanges of Company stock for stock of another company which require approval by a majority of each class of capital stock. In such matters, the preferred and common shareholders will each vote as a separate class.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES:**

**Operating leases**

The Company leases distribution facilities and certain equipment under noncancelable operating leases which expire at various dates through 2005. Future minimum lease payments under all such leases for the succeeding five fiscal years are as follows: 2000 - \$32,514,000; 2001 - \$28,857,000; 2002 - \$17,416,000; 2003 - \$13,019,000; 2004 - \$13,617,000; and \$106,000 thereafter. Rental expense for all operating leases amounted to \$27,015,000, \$15,704,000 and \$10,160,000 in 1999, 1998 and 1997, respectively.

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 10 - SEGMENT INFORMATION:**

Effective for the period ended January 31, 1999, the Company has adopted the disclosure requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" which establishes standards for additional disclosure about operating segments for interim and annual financial statements. This standard requires financial and descriptive information be disclosed for segments whose operating results are reviewed by the chief operating officer for decisions on resource allocation. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

The Company operates predominantly in a single industry segment as a wholesale distributor of computer-based technology products and services. Based on geographic location, the Company has three principal segments. These geographical segments are 1) the United States, 2) Europe (including the Middle East) and 3) Other International areas (Canada, Brazil, Argentina, Chile, Peru, Uruguay, and export sales to Latin America and the Caribbean from the U.S.). The measure of segment profit is income from operations. The accounting policies of the segments are the same as those described in Note 1-Summary of Significant Accounting Policies.

Financial information by geographic segments is as follows (in thousands):

	<u>United States</u>	<u>Europe</u>	<u>Other International</u>	<u>Total</u>
<b><u>Fiscal year 1999</u></b>				
Net sales to unaffiliated customers	<u>\$6,359,124</u>	<u>\$4,540,108</u>	<u>\$ 629,767</u>	<u>\$11,528,999</u>
Operating income	<u>\$ 156,142</u>	<u>\$ 76,638</u>	<u>\$ 2,551</u>	<u>\$ 235,331</u>
Identifiable assets	<u>\$1,555,325</u>	<u>\$2,112,546</u>	<u>\$ 177,116</u>	<u>\$ 3,844,987</u>
<b><u>Fiscal year 1998</u></b>				
Net sales to unaffiliated customers	<u>\$5,434,833</u>	<u>\$1,148,036</u>	<u>\$ 473,750</u>	<u>\$ 7,056,619</u>
Operating income	<u>\$ 148,485</u>	<u>\$ 20,122</u>	<u>\$ 4,031</u>	<u>\$ 172,638</u>
Identifiable assets	<u>\$1,558,337</u>	<u>\$ 534,192</u>	<u>\$ 92,854</u>	<u>\$ 2,185,383</u>
<b><u>Fiscal year 1997</u></b>				
Net sales to unaffiliated customers	<u>\$3,907,516</u>	<u>\$ 403,030</u>	<u>\$ 288,395</u>	<u>\$ 4,598,941</u>
Operating income	<u>\$ 102,024</u>	<u>\$ 8,120</u>	<u>\$ 4,867</u>	<u>\$ 115,011</u>
Identifiable assets	<u>\$1,326,531</u>	<u>\$ 151,012</u>	<u>\$ 67,751</u>	<u>\$ 1,545,294</u>

**NOTE 11 - UNAUDITED INTERIM FINANCIAL INFORMATION:**

	Quarter ended			
	<u>April 30</u>	<u>July 31</u>	<u>October 31</u>	<u>January 31</u>
	(In thousands, except per share amounts)			
<b><u>Fiscal year 1999</u></b>				
Net sales	\$2,184,366	\$2,213,261	\$3,278,401	\$3,852,971
Gross profit	139,767	144,748	213,095	230,263
Net income	23,105	35,279	34,088	36,480
Net income per common share:				
Basic	.48	.73	.67	.71
Diluted	.46	.70	.63	.67

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

	Quarter ended			
	April 30	July 31	October 31	January 31
	(In thousands, except per share amounts)			
<b><u>Fiscal year 1998</u></b>				
Net sales	\$1,370,146	\$1,551,820	\$2,021,479	\$2,113,174
Gross profit	95,177	103,978	129,342	137,249
Net income	18,222	21,464	23,673	26,126
Net income per common share:				
Basic	.42	.49	.54	.55
Diluted	.41	.47	.51	.53

### PART III

#### **ITEM 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

#### **ITEMS 10, 11, 12 and 13.**

The information required by Item 10 relating to executive officers of the registrant is included under the caption "Executive Officers" of Item 1 of this Form 10-K. The information required by Item 10 relating to Directors of the registrant and the information required by Items 11, 12 and 13 is incorporated herein by reference to the registrant's definitive proxy statement for the 1998 Annual Meeting of Shareholders. However, the information included in such definitive proxy statement under the subcaption entitled "Grant Date Present Value" in the table entitled "Option Grants in Last Fiscal Year", the information included under the caption entitled "Compensation Committee Report on Executive Compensation", and the information included in the "Stock Price Performance Graph" shall not be deemed incorporated by reference in this Form 10-K and shall not otherwise be deemed filed under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended. The definitive proxy statement for the 1999 Annual Meeting of Shareholders will be filed with the Commission prior to May 31, 1999.

#### **ITEM 14. *Exhibits, Financial Statement Schedule, and Reports on Form 8-K***

- (a) See index to financial statements and schedules included in Item 8.
- (b) The Company filed the following reports on Form 8-K during the fiscal year ended January 31, 1998:
  - Current Report on Form 8-K dated July 1, 1998
  - Current Report on Form 8-K dated July 28, 1998
- (c) The exhibit numbers on the following list correspond to the numbers in the exhibit table required pursuant to Item 601 of Regulation S-K.
  - 3-A(1) -- Articles of Incorporation of the Company as amended to April 23, 1986.
  - 3-B(2) -- Articles of Amendment to Articles of Incorporation of the Company filed on August 27, 1987.
  - 3-C(13) -- By-Laws of the Company as amended to November 28, 1995.
  - 3-F(9) -- Articles of Amendment to Articles of Incorporation of the Company filed on July 15, 1993.
  - 4-E(15) -- Articles of Amendment to Articles of Incorporation of the Company filed on June 25, 1997.
  - 10-F(4) -- Incentive Stock Option Plan, as amended, and form of option agreement.
  - 10-G(10) -- Employee Stock Ownership Plan as amended December 16, 1994.
  - 10-V(5) -- Employment Agreement between the Company and Edward C. Raymund dated as of January 31, 1991.
  - 10-W(5) -- Irrevocable Proxy and Escrow Agreement dated April 5, 1991.
  - 10-X(6) -- First Amendment to the Employment Agreement between the Company and Edward C. Raymund dated November 13, 1992.
  - 10-Y(6) -- First Amendment in the nature of a Complete Substitution to the Irrevocable Proxy and Escrow Agreement dated November 13, 1992.
  - 10-Z(7) -- 1990 Incentive and Non-Statutory Stock Option Plan as amended.
  - 10-AA(7) -- Non-Statutory Stock Option Grant Form.
  - 10-BB(7) -- Incentive Stock Option Grant Form.
  - 10-CC(8) -- Employment Agreement between the Company and Steven A. Raymund dated February 1, 1992.

- 10-EE(10) -- Retirement Savings Plan as amended January 26, 1994.
- 10-FF(9) -- Revolving Credit and Reimbursement Agreement dated December 22, 1993.
- 10-GG(9) -- Transfer and Administration Agreement dated December 22, 1993.
- 10-HH(10) -- Amendments (Nos. 1-4) to the Transfer and Administration Agreement.
- 10-II(10) -- Amended and Restated Revolving Credit and Reimbursement Agreement dated July 28, 1994, as amended.
- 10-JJ(10) -- Revolving Foreign Currency Agreement dated August 4, 1994, as amended.
- 10-KK(13) -- Amendments (Nos. 5,6) to the Transfer and Administration Agreement
- 10-LL(13) -- Amendments (Nos. 3-5) to the Amended and Restated Revolving Credit and Reimbursement Agreement dated July 28, 1994, as amended.
- 10-MM(13) -- Amendments (Nos. 3-5) to the Revolving Foreign Currency Agreement dated August 4, 1994, as amended.
- 10-NN(12) -- Non-Employee Directors' 1995 Non-Statutory Stock Option Plan.
- 10-OO(12) -- 1995 Employee Stock Purchase Plan.
- 10-PP(12) -- Employment Agreement between the Company and A. Timothy Godwin dated as of December 5, 1995.
- 10-QQ(14) -- Amended and Restated Transfer and Administration Agreement dated January 21, 1997.
- 10-RR(14) -- Amendment Number 1 to the Amended and Restated Transfer and Administration Agreement dated January 21, 1997, as amended.
- 10-SS(14) -- Revolving Credit and Reimbursement Agreement dated May 23, 1996.
- 10-TT(15) -- Amendment Number 2 to the Amended and Restated Transfer and Administration Agreement dated January 21, 1997, as amended.
- 10-UU(15) -- Revolving Credit and Reimbursement Agreement dated August 28, 1997.
- 10-VV(16) -- Amendment Number 3 to the Amended and Restated Transfer and Administration Agreement dated January 21, 1997, as amended.
- 10-WW (17) -- Amendments (Nos. 1-2) to the Revolving Credit and Reimbursement Agreement dated August 28, 1997, as amended.
- 10-XX (17) -- Amendments (Nos. 4-6) to the Amended and Restated Transfer and Administration Agreement dated January 21, 1997, as amended.
- 21(17) -- Subsidiaries of Registrant.
- 27(3) -- Financial Data Schedule (included in the electronic version only.)
- 99-A(3) -- Cautionary Statement For Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995.

- 
- (1) Incorporated by reference to the Exhibits included in the Company's Registration Statement on Form S-1, File No. 33-4135.
  - (2) Incorporated by reference to the Exhibits included in the Company's Registration Statement on Form S-1, File No. 33-21997.
  - (3) Filed herewith.
  - (4) Incorporated by reference to the Exhibits included in the Company's Registration Statement on Form S-8, File No. 33-21879.
  - (5) Incorporated by reference to the Exhibits included in the Company's Form 10-Q for the quarter ended July 31, 1991, File No. 0-14625.
  - (6) Incorporated by reference to the Exhibits included in the Company's Form 10-Q for the quarter ended October 31, 1992, File No. 0-14625.
  - (7) Incorporated by reference to the Exhibits included in the Company's Registration Statement on Form S-8, File No. 33-41074.

- (8) Incorporated by reference to the Exhibits included in the Company's Form 10-K for the year ended January 31, 1993, File No. 0-14625.
- (9) Incorporated by reference to the Exhibits included in the Company's Form 10-K for the year ended January 31, 1994, File No. 0-14625.
- (10) Incorporated by reference to the Exhibits included in the Company's Form 10-K for the year ended January 31, 1995, File No. 0-14625.
- (11) Incorporated by reference to the Exhibits included in the Company's Form 8-K filed on March 26, 1996, File No. 0-14625.
- (12) Incorporated by reference to the Exhibits included in the Company's Definitive Proxy Statement for the 1995 Annual Meeting of Shareholders, File No. 0-14625.
- (13) Incorporated by reference to the Exhibits included in the Company's Form 10-K for the year ended January 31, 1996, File No. 0-14625.
- (14) Incorporated by reference to the Exhibits included in the Company's Form 10-K for the year ended January 31, 1997, File No. 0-14625.
- (15) Incorporated by reference to the Exhibits included in the Company's Registration Statement on Form S-3, File No. 333-36999.
- (16) Incorporated by reference to the Exhibits included in the Company's Form 10-K for the year ended January 31, 1998, File No. 0-14625.
- (17) To be filed by amendment.



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON  
FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors and Shareholders  
of Tech Data Corporation

Our audits of the consolidated financial statements referred to in our report dated March 19, 1999 appearing on page 20 of this Form 10-K of Tech Data Corporation also included an audit of the Financial Statement Schedule listed in Item 14 of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP  
Tampa, Florida  
March 19, 1999

**CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8s (Nos. 33-21879, 33-41074, 33-62181 and 33-60479) of Tech Data Corporation of our report dated March 19, 1999 appearing on page 20 of this Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule appearing above.

PricewaterhouseCoopers LLP  
Tampa, Florida  
May 3, 1999

**TECH DATA CORPORATION AND SUBSIDIARIES**  
**VALUATION AND QUALIFYING ACCOUNTS**  
(In thousands)

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Charged to cost and expenses</u>	<u>Additions</u>		<u>Balance at end of period</u>
			<u>Deductions</u>	<u>Other(1)</u>	
Allowance for doubtful accounts receivable and sales returns:					
January 31,					
1999	\$29,731	\$34,810	\$(31,707)	\$27,687	\$60,521
1998	23,922	22,634	(26,153)	9,328	29,731
1997	22,669	19,648	(22,685)	4,290	23,922

(1) Other includes recoveries, acquisitions, dispositions and the effect of fluctuations in foreign currency.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 3rd day of May, 1999.

TECH DATA CORPORATION

By           /s/ STEVEN A. RAYMUND            
Steven A. Raymund,  
Chairman of the Board of Directors;  
Chief Executive Officer

## POWER OF ATTORNEY

Each person whose signature to this Annual Report on Form 10-K appears below hereby appoints Jeffery P. Howells and Arthur W. Singleton, or either of them, as his attorney-in-fact to sign on his behalf individually and in the capacity stated below and to file all amendments and post-effective amendments to this Annual Report on Form 10-K, and any and all instruments or documents filed as a part of or in connection with this Annual Report on Form 10-K or the amendments thereto, and the attorney-in-fact, or either of them, may make such changes and additions to this Annual Report on Form 10-K as the attorney-in-fact, or either of them, may deem necessary or appropriate.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>          /s/ STEVEN A. RAYMUND          </u> Steven A. Raymund	Chairman of the Board of Directors; Chief Executive Officer	May 3, 1999
<u>          /s/ ANTHONY A. IBARGÜEN          </u> Anthony A. Ibargüen	President and Chief Operating Officer; Director	May 3, 1999
<u>          /s/ JEFFERY P. HOWELLS          </u> Jeffery P. Howells	Executive Vice President and Chief Financial Officer; Director (principal financial officer)	May 3, 1999
<u>          /s/ JOSEPH B. TREPANI          </u> Joseph B. Trepani	Senior Vice President and Corporate Controller (principal accounting officer)	May 3, 1999
<u>          /s/ ARTHUR W. SINGLETON          </u> Arthur W. Singleton	Vice President, Treasurer and Secretary	May 3, 1999
<u>          /s/ CHARLES E. ADAIR          </u> Charles E. Adair	Director	May 3, 1999
<u>          /s/ MAXIMILIAN ARDELT          </u> Maximilian Ardel	Director	May 3, 1999
<u>          /s/ DANIEL M. DOYLE          </u> Daniel M. Doyle	Director	May 3, 1999
<u>          /s/ DONALD F. DUNN          </u> Donald F. Dunn	Director	May 3, 1999
<u>          /s/ EDWARD C. RAYMUND          </u> Edward C. Raymund	Director; Chairman Emeritus	May 3, 1999
<u>          /s/ DAVID M. UPTON          </u> David M. Upton	Director	May 3, 1999
<u>          /s/ JOHN Y. WILLIAMS          </u> John Y. Williams	Director	May 3, 1999

EXHIBIT 99A

**CAUTIONARY STATEMENTS FOR PURPOSES OF THE  
"SAFE HARBOR" PROVISIONS OF THE PRIVATE  
SECURITIES LITIGATION REFORM ACT OF 1995**

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for "forward-looking statements" to encourage companies to provide prospective information, so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statement(s). Tech Data Corporation (the "Company" or "Tech Data") desires to take advantage of the safe harbor provisions of the Act.

Except for historical information, the Company's Annual Report on Form 10-K for the year ended January 31, 1999 to which this exhibit is appended, the Company's quarterly reports on Form 10-Q, the Company's current reports on Form 8-K, periodic press releases, as well as other public documents and statements, may contain forward-looking statements within the meaning of the Act.

In addition, representatives of the Company, from time to time, participate in speeches and calls with market analysts, conferences with investors and potential investors in the Company's securities, and other meetings and conferences. Some of the information presented in such speeches, calls, meetings and conferences may be forward-looking within the meaning of the Act.

It is not reasonably possible to itemize all of the many factors and specific events that could affect the Company and/or the microcomputer products distribution industry as a whole. In some cases, information regarding certain important factors that could cause actual results to differ materially from those projected, forecasted, estimated, budgeted or otherwise expressed in forward-looking statements made by or on behalf of the Company may appear or be otherwise conveyed together with such statements. The following additional factors (in addition to other possible factors not listed) could affect the Company's actual results and cause such results to differ materially from those projected, forecasted, estimated, budgeted or otherwise expressed in forward-looking statements made by or on behalf of the Company:

**Competition**

The Company operates in a highly competitive environment, both in the United States and internationally. The computer wholesale distribution industry is characterized by intense competition, based primarily on product availability, credit availability, price, speed of delivery, ability to tailor specific solutions to customer needs, quality and depth of product lines and pre-sale and post-sale training, service and support. The Company competes with a variety of regional, national and international wholesale distributors, some of which have greater financial resources than the Company. In addition, the Company faces competition from direct sales by vendors which may be able to offer resellers lower prices than the Company.

**Narrow Profit Margins**

As a result of intense price competition in the industry, the Company has narrow gross profit and operating profit margins. These narrow margins magnify the impact on operating results of variations in sales and operating costs. The Company has partially offset the effects of its low gross profit margins by increasing sales and reducing operating expenses as a percentage of sales; however, there can be no assurance that the Company will maintain or increase sales or further reduce operating expenses as a percentage of sales in the future. Future gross profit margins may be adversely affected by changes in product mix, vendor pricing actions and competitive and economic pressures.

**Risk Of Declines In Inventory Value**

The Company is subject to the risk that the value of its inventory will decline as a result of price reductions by vendors or technological obsolescence. It is the policy of most vendors of microcomputer products to protect distributors, such as the Company, which purchase directly from such vendors, from the loss in value of inventory due to technological change or the vendors' price reductions.

Some vendors, however, may be unwilling or unable to pay the Company for products returned to them under purchase agreements. Moreover, industry practices are sometimes not embodied in written agreements and do not protect the Company in all cases from declines in inventory value. No assurance can be given that such practices will continue, that unforeseen new product developments will not adversely affect the Company, or that the Company will be able to successfully manage its existing and future inventories.

Some major systems vendors are developing programs which will allow the Company to assemble systems from components provided by the vendors. While the Company has developed the ability to configure computer products, the process of assembling large volumes of systems from components will require new business practices by the Company. It is also uncertain how the vendors will apply policies related to price protection, stock rotation and other protections against the decline in inventory value to components.

### **Dependence On Information Systems**

The Company is highly dependent upon its internal computer and telecommunication systems to operate its business. There can be no assurance that the Company's information systems will not fail, that the Company will be able to attract and retain qualified personnel necessary for the operation of such systems, that the Company will be able to expand and improve its information systems, or that the information systems of acquired companies will be sufficient to meet the Company's standards or can be successfully converted into an acceptable information system on a timely and cost-effective basis. Any of such problems could have an adverse effect on the Company's business.

The Company is currently addressing Year 2000 system requirements and anticipates that Year 2000 modifications will be made on a timely basis and does not believe that the cost of the modifications will have a material effect on the Company's operating results. There can be no assurance, however, that the Company will be able to modify successfully and in a timely manner all of its internal services and systems to comply with Year 2000 requirements, which could have a material adverse effect on the Company's operating results. In addition, the Company faces risks to the extent that suppliers of products, services and business on a worldwide basis may not obtain proper compliance with Year 2000 requirements.

### **Customer Credit Exposure**

The Company sells its products to a large customer base of value-added resellers, corporate resellers, retailers and direct marketers. A significant portion of such sales is financed by the Company. As a result, the Company's business could be adversely affected in the event of the deterioration of the financial condition of its customers, resulting in the customers' inability to repay the Company. This risk would be increased in the event of a general economic downturn affecting a large number of the Company's customers.

### **Management Of Expansion**

The rapid expansion of the Company's business has required the Company to make significant recent additions in personnel and has significantly increased the Company's working capital requirements. Although the Company has experienced rapid expansion in recent years, such expansion should not be considered indicative of future expansion. Such expansion has resulted in new and increased responsibilities for management personnel and has placed and continues to place a strain upon the Company's management, operating and financial systems and other resources. There can be no assurance that the strain placed upon the Company's management, operating and financial systems and other resources will not have an adverse effect on the Company's business, nor can there be any assurance that the Company will be able to attract or retain sufficient personnel to continue the expansion of its operations.

## **Liquidity And Capital Resources**

The Company's business requires substantial capital to finance accounts receivable and product inventory that are not financed by trade creditors. The Company has historically relied upon cash generated from operations, bank credit lines, trade credit from its vendors and proceeds from public offerings of its Common Stock to satisfy its capital needs and finance growth. In order to continue its expansion, the Company will need additional financing, including debt financing. The inability to obtain such sources of capital could have an adverse effect on the Company's business.

## **Acquisitions**

As part of its growth strategy, the Company pursues the acquisition of companies that either complement or expand its existing business. As a result, the Company regularly evaluates potential acquisition opportunities, which may be material in size and scope. Acquisitions involve a number of risks and uncertainties, including expansion into new geographic markets and business areas, the requirement to understand local business practices, the diversion of management's attention to the assimilation of the operations and personnel of the acquired companies, the possible requirement to upgrade the acquired companies' management information systems to the Company's standards, potential adverse short-term effects on the Company's operating results and the amortization of any acquired intangible assets.

## **Foreign Currency Exchange Risks; Exposure To Foreign Markets**

The Company conducts business in countries outside of the United States which exposes the Company to fluctuations in foreign currency exchange rates. The Company may enter into short-term forward exchange or option contracts to hedge this risk according to its outlook on future exchange rates; nevertheless, fluctuations in foreign currency exchange rates could have an adverse effect on the Company's business.

The Company's international operations are subject to other risks such as the imposition of governmental controls, currency devaluations, export license requirements, restrictions on the export of certain technology, political instability, trade restrictions, tariff changes, difficulties in staffing and managing international operations, difficulties in collecting accounts receivable and longer collection periods and the impact of local economic conditions and practices. As the Company continues to expand its international business, its success will be dependent, in part, on its ability to anticipate and effectively manage these and other risks. There can be no assurance that these and other factors will not have an adverse effect on the Company's business.

## **Product Supply Shortages**

The Company is dependent upon the supply of products available from its vendors. The industry is characterized by periods of severe product shortages due to vendors' difficulty in projecting demand for certain products distributed by the Company. When such product shortages occur, the Company typically receives an allocation of product from the vendor. There can be no assurance that vendors will be able to maintain an adequate supply of products to fulfill all of the Company's customer orders on a timely basis. Failure to obtain adequate product supplies, if available to competitors, could have an adverse effect on the Company's business.

## **Vendor Relations**

The loss of certain key vendors could have an adverse effect on the Company's business. In addition, the Company relies on various rebate and cooperative marketing programs offered by its vendors to defray expenses associated with distributing and marketing the vendors' products. Additionally, certain of the Company's vendors subsidize floor plan financing arrangements. A reduction by the Company's vendors in any of these programs could have an adverse effect on the Company's business.

## **General Economic Conditions**

From time to time the markets in which the Company sells its products experience weak economic conditions that may negatively affect the Company's sales. Although the Company does not consider its business to be highly seasonal, it has experienced seasonally higher sales and earnings in the third and fourth quarters. To the extent that general economic conditions affect the demand for products sold by the Company, such conditions could have an adverse effect on the Company's business.

## **Exposure To Natural Disasters**

The Company's headquarters facilities, certain of its distribution centers as well as certain vendors and customers are located in areas prone to natural disasters such as floods, hurricanes, tornadoes, earthquakes and other adverse weather conditions. The Company's business could be adversely affected should its ability to distribute products be impacted by such an event.

## **Labor Strikes**

The Company's labor force is currently non-union with the exception of employees of certain European subsidiaries which are subject to collective bargaining or similar arrangements. Additionally, the Company does business in certain foreign countries where labor disruption is more common than is experienced in the United States. The majority of the freight carriers used by the Company are unionized. A labor strike by a group of the Company's employees, one of the Company's freight carriers, one of its vendors, a general strike by civil service employees, or a governmental shutdown could have an adverse effect on the Company's business.

## **Volatility Of Common Stock**

Because of the foregoing factors, as well as other variables affecting the Company's operating results, past financial performance should not be considered a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods. In addition, the Company's participation in a highly dynamic industry often results in significant volatility of the Common Stock price.