



establishing a clear path  
for today and tomorrow

2004 annual report  
year ended January 31, 2004

the  
difference

in distribution

a leading distributor of IT products



Tech Data Corporation (NASDAQ/NMS: TECD), founded in 1974, is a leading global provider of IT products, logistics management and other value-added services. Ranked 111th on the Fortune 500, the company and its subsidiaries serve more than 90,000 technology resellers in the United States, Canada, the Caribbean, Latin America, Europe and the Middle East. Tech Data's extensive service offering includes pre- and post-sale training and technical support, financing options and configuration services as well as a full range of electronic commerce solutions. The company generated sales of \$17.4 billion for its most recent fiscal year, which ended January 31, 2004.

dear **valued** shareholders

**a**s a central force in the IT supply chain, Tech Data Corporation encountered unprecedented challenges when the new millennium began. Most notably, like other successful companies in the technology industry, we needed to change our focus from managing the extraordinary growth of the 1990s to operating more efficiently in the new demand environment.

We responded by refining our operational practices, restructuring and implementing many other measures based on rigorous evaluation of all operations, establishing a clear path for today and tomorrow. These efforts, substantial in every respect, began to pay off with improving financial results during the second half of fiscal 2004. Despite a highly competitive pricing environment, our team did a commendable job defending market share while driving profitability and customer service improvements.

Net income for the fiscal year increased to \$104.1 million, or \$1.81 per diluted share, compared to a net loss of \$199.8 million, or \$3.55 per diluted share, in the prior year. Net income on a non-GAAP basis for the fiscal year, which excludes the charges associated with closing the company's U.S. education business, was \$106.1 million, or \$1.85 per diluted share, compared to non-GAAP net income in the prior year of \$136.3 million, or \$2.35 per diluted share. Prior-year net income on a non-GAAP basis excludes a non-cash goodwill impairment charge of \$328.9 million and net loss of \$7.3 million related to the disposition of subsidiaries.

Sales for the fiscal year totaled \$17.4 billion—an increase of 10.6 percent over the prior year, including 10 months of operations from the company's Azlan Group PLC, a pan-European networking specialty distributor and training organization that Tech Data acquired on March 31, 2003. Net sales in Europe represented 55 percent of sales and increased 29.3 percent (7.6 percent on a local currency basis) to \$9.6 billion from \$7.4 billion for the fiscal year ended January 31, 2003. Net sales in the Americas represented 45 percent of sales and decreased 6.0 percent to \$7.8 billion from \$8.3 billion in the prior fiscal year.

### **Making the Right Calls**

We have outperformed competitors and many other IT industry leaders by taking decisive action throughout the economic slowdown. We continued those initiatives during the past fiscal year, focusing heavily in the first six months on advancing our core competencies in logistics management and vital reseller channel services. This entailed consolidating certain functions and taking new approaches for others. We closed our U.S. reseller education centers and opted to partner with other providers with broader national coverage and enhanced course offerings.

In the second half of the fiscal year, we increased our focus on new growth opportunities and leveraged our efficient cost structure to the fullest extent possible. As the IT industry and economy gained momentum, Tech Data's results followed suit.

Our performance in the third quarter confirmed we had made the right decisions earlier in the year. Our efforts produced a 30 percent sequential increase in operating income, excluding the special charge of \$3.1 million that we reported in the second quarter resulting from closure of our training facilities.

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Fourth-quarter results showed further improvement as we significantly exceeded our worldwide sales and earnings plan. Through solid execution, we capitalized on strengthening European demand, nearly quadrupling our European operating profits sequentially. We completed the phase-in of new accounting pronouncements such as EITF 02-16, which included reclassifications related to cost of goods sold and selling margins (see page 34 for details).

We ended the fiscal year with our strongest balance sheet ever. Total debt-to-capital at January 31, 2004, was 19 percent, compared to 27 percent at January 31, 2003. We generated solid cash flow, \$303.2 million for the fiscal year, which enabled us to internally fund the acquisition of Azlan as well as substantially reduce outstanding debt levels. We continued to manage customer credit extremely well, protecting the company from higher-risk accounts, while prudently extending credit to support our growing business.

### **Geographically Diversified and Strategically Focused**

Our most recent fiscal year also underscored how international Tech Data has become, with more than half our sales in Europe. The Americas, however, continued to produce substantially higher profitability. We are working hard to achieve a more balanced operating performance across both regions despite their vast differences. We believe we are taking the right steps to further optimize all operations; while ensuring our customers continue to receive exceptional service from every Tech Data location.

Now that we are considerably larger in Europe, going forward we expect more pronounced seasonality in our business. The European market typically experiences lower demand levels in the summer months and peak volumes toward year-end. We are exploring ways to more effectively manage our costs relative to this fluctuation. You can learn more about Tech Data's initiatives in Europe and the Americas in the regional overviews of this annual report (pages 4-7).

In addition to the unique strategic initiatives we are implementing in each region, we continue to share best practices across all locations and functions. Our collaborative supply-chain management approach with the vendor community, for example, helps streamline processes and optimize inventory management. Activity-based costing systems pinpoint the actual costs to serve customers and vendors, paving the way for other efficiencies. Our e-business capabilities around the world help keep sales transaction costs low, while providing our customers product procurement alternatives. Disciplined pricing



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



**Néstor Cano**  
President of Worldwide  
Operations

practices ensure we maintain critical market share as well as profitability. We are investing in these and other areas to ensure we continue building on our leadership position.

Among the most substantial investments in Tech Data's future is our European systems upgrade and harmonization project, that continues on-budget and in accordance with overall plans. We are also making strategic moves into new markets through our Specialized Business Units, aligned with today's most promising growth segments. The combination of Tech Data's economies of scale and our focused, dedicated resources gives us a strong advantage when competing with higher-cost specialty distributors.

### **Vision, Talent, Depth and Direction**

Our competitive advantages include the exceptional quality of our management team, that has become even stronger through the recent addition of Ken Lamneck, who joined us in March 2004 as President, the Americas. Ken is a seasoned distribution industry executive who most recently was with Arrow Electronics, a leading distributor of components and other computer products.

Tech Data's senior management team has made great strides navigating some of the toughest times in IT history. We are confident that we have the vision, talent, depth and strategic direction to capitalize as the industry recovers from the volatility of the past three years. Times have been tough, but our team has proven itself time and again.

### **30 Years of Success**

Tech Data is entering its 30th year in business. The experience we have gained along the way will continue to help us make the right decisions regardless of how the years ahead unfold. We are on a clear path to a promising future.

We thank our more than 8,400 employees worldwide for their dedication and countless contributions to Tech Data's ongoing success. Their efforts make the difference—from the front lines of ensuring exceptional customer service and satisfaction, to the bottom line of delivering shareholder value.

As fellow shareholders, we also greatly appreciate your investment in the company. We are excited about the opportunities ahead and look forward to doing everything possible to maximize Tech Data's results.

Sincerely,



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



**Néstor Cano**  
President of Worldwide Operations

the  
difference

in distribution

americas overview

As the U.S. economy improved and lifted IT market demand in the second half of the year, Tech Data was ready with a lean cost structure and solid execution plan in place. In fact, we were more than ready. Demand had been soft or declining for the past three years. Our eyes were more inwardly focused, ensuring we had the right size workforce, while refining service areas and driving down costs every way possible. When signs of market recovery emerged at the end of the second quarter, we quickly mobilized—this time squarely focused on new business opportunities.

Our hard work modifying operations was clearly paying off by the time we completed the third and fourth quarters of the fiscal year. We were able to more fully leverage our infrastructure and adjusted capacity, generating substantial cost savings and improved earnings. The operational efficiencies were achieved without diminishing service levels—a critical success factor in any industry, perhaps even more so in IT distribution, where alternative sources abound.

One measure of how well we have maintained our leading edge is the prestigious CRN Sourcing Study. Tech Data was named technology solution providers' "Most Preferred" IT source for the second consecutive year, ahead of all other distributors and vendors. Additional awards and honors reflect our stellar performance from other important perspectives. For example, Cisco Systems, the worldwide leader in networking for the Internet, named us as their top-performing U.S. distributor. *FORTUNE* selected Tech Data for the sixth consecutive year for its "Most Admired Companies" listing, placing us fourth this time in the "Wholesalers—Electronics and Office Equipment" category, ahead of all other broadband IT distributors. *Computerworld* honored Tech Data as one of the "100 Best Places to Work in IT," underscoring the stand-out type of employer Tech Data has become.

**Our Two-Fold Advantage: Specialization and Global Scale**

The Tech Data advantage is tangible beyond such formal recognition. How we reach out to customers today clearly distinguishes us from our competitors. On that front, we continue advancing the Specialized Business Unit ("SBU") model in the Americas—a concept that originated and succeeded in our European operations. We now have nine SBUs in the Americas.

SBUs support our diversification into more specialized, higher-value market segments. They provide an unparalleled combination of channel-focused resources and services with Tech Data's world-class logistics management capabilities and economies of scale.

POS/Data Capture and Digital Environments are the most recent additions to the SBU lineup. The POS/Data Capture offering ranges from point-of-sale products, touch systems, and other automatic identification and data collection solutions to specialized output devices such as portable printers and bar code printers as well as accessories and other peripherals. Related vendors include Dymo, IBM RSS, IEE, Microsoft, Cherry, ICD, Preh, 3M Touchscreen and WASP.

**Digital Imaging™**

**Mobile Solutions™**

**POS/Data Capture™**

**Components™**

**Supplies & Accessories™**

**Licensing™**

**Telephony™**

**Enterprise™**

**Digital Environments™**

Solution providers named Tech Data the “Most Preferred” IT source for the second consecutive year of this prestigious industry study.



The Digital Environments SBU focuses on the needs of resellers serving home builders, audio/video professionals, security providers and others. Products include IP security cameras, plasma and LCD displays and projectors, wireless networking, structured wiring and home automation, as well as mounting hardware and distributed audio equipment. Our vendors include BenQ, InFocus, NEC, Philips, Sony, JVC, OnQ, Russound, Peerless, Premier and others.

### **Building Customer Loyalty**

Additional customer loyalty incentives have been developed to enhance the SBUs, applying some of the elements found in our TechSelect solution provider program. Through TechSelect, our customers develop a special bond with each other and Tech Data. Educational conferences and other events support the face-to-face interaction our TechSelect members highly value—along with a vast array of services and business incentives. Although we frequently communicate electronically and our IT infrastructure is second to none, it's clear that a friendly, personal handshake still makes a difference today. We recognize that people are the foundation of our success and are committed to continually developing our team here and abroad.

Our organization is closely connected with the reseller community, and consequently, with today's small-to-midsize business ("SMB") opportunities. Our customers fulfill the IT requirements of thousands of end users in the SMB space—a prime market that vendors effectively reach through Tech Data. Sun Microsystems, for instance, last year expanded their distribution agreement with Tech Data to more aggressively drive Sun technology solutions to midsize enterprises across the United States. Tech Data resellers can now offer Sun's foundation-level servers, storage, software and services to their end-user customers.

While people have clearly made the difference at Tech Data, further developing our e-business offerings also ranks high on our Americas priority list. In 2003, we completed many related projects such as enriching online product data, enhancing Web-based search tools and adding reseller quote branding features.

IT innovation, people development, SBUs and loyalty programs are all crucial elements in our Americas growth formula. You can also count on us to closely manage our costs and selling margins, as always, while challenging everyone in our operations to continually execute better than our competition. Our Americas business is poised to do just that. We are more than ready.



# the difference

in distribution

## europa overview

**T**he European market contrasts sharply with the Americas. Unique local stocking requirements and services often entail a decentralized distribution approach. Consequently, the cost structure for operating a distribution business is markedly higher than in the Americas. Seasonality trends are also much more pronounced in Europe, with lower volume levels in the summer and accelerating demand at year-end. Managing resources to the peaks and valleys adds to the challenges.

Although many diverse factors and forces come into play in Europe, Tech Data is well-equipped to make the right moves. We have proven that we can drive additional cost savings and operational improvements, dramatically exemplified by our growth in fourth-quarter European operating profit compared to the third quarter of the fiscal year.

The differences are easy to see between the Americas and Europe relative to our business; however, many similarities and cross-organizational efficiencies apply. The sharing of best practices between these regions is evident through the expansion of our TechSelect program within Europe. From its start in the Americas five years ago, this customer loyalty program is now reaching out to customers in seven European countries. Other initiatives, like our SBUs, are among Tech Data's key strategic undertakings on both sides of the Atlantic. The concept was successfully pioneered within our European operations before being incorporated into our Americas business model three years ago.

### Acquisitions Bolster SBUs

The most significant development last year relative to our European SBUs was the March 2003 acquisition of Azlan, the networking specialty distributor and training organization. We also made two smaller acquisitions in France—a CAD graphics specialty distributor and a supplier of storage solutions. Various facilities, functions and product offerings have already been integrated with these acquisitions, supporting our overall move into higher-end market segments.

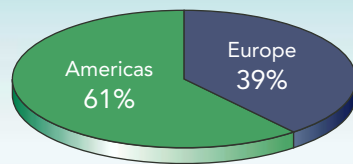
Our efforts relative to European vendor relationships have concentrated on expanding existing distribution agreements with a number of vendors to offer their products in additional countries. Last year, Apple joined us in Italy and we signed an agreement in Austria with Hewlett-Packard for the sale of personal computers in the consumer and SMB markets. We began distribution of Fujitsu Siemens products in the U.K. and the Czech Republic. Other developments included expanding our relationship with Acer to encompass all European countries where Tech Data operates.

As part of our overall effort to further strengthen European operating performance, we have exited certain non-strategic countries. We recently sold our operations in Latvia, Lithuania and Estonia to our local management in those countries. The in-country locations were immaterial to our earnings, as was the corresponding sale.

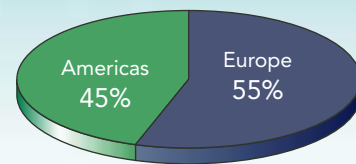




## Tech Data's Net Sales by Geography



FY 1999—\$11.5 billion



FY 2004—\$17.4 billion

Where we feel we are underperforming, we do not hesitate to make adjustments. In Germany, we believe we are now on track to a much brighter future, with a new management team and focus on improving execution. As we had previously reported, this market has been particularly challenging for us, but we believe that we have turned the corner.

### Systems Implementation On-Track

Another noteworthy development in Europe pertains to the systems upgrade and harmonization project. This undertaking is an absolutely vital investment to further enhance our leadership position in Europe. Related expenditures are factored into our forecasts, impacting operating performance throughout the project's duration. The implementation is proceeding very well and is already helping to streamline and standardize various processes, including IT development, while giving management better reporting tools and greater visibility into their respective operations.

The systems advances support our long-term efforts to improve the return on capital employed in each European country where we do business. As in the Americas, we are leveraging and enhancing e-business capabilities in Europe to maintain and further reduce sales transaction costs. On a worldwide basis, electronic commerce totaled 35% of fourth-quarter sales.

As part of our focus on driving better European market results, as appropriate we have established centralized or regionalized functions and will continue to explore more efficient back-office solutions. Our scale in Europe is a prime advantage, and we are confident that we will be able to leverage this strength as the selling environment continues to improve.

Our model is gaining momentum in Europe, as smaller competitors have lost share to broadline distributors like Tech Data. Certain major vendors have also reduced their number of distribution partners to optimize their supply chains. As the largest IT distributor in Europe, Tech Data typically benefits from such industry consolidation.

Even though we strongly advocate supply-chain consolidation to our vendor partners, we're not dependent on these developments. In Europe, we will continue to do what it takes to improve overall execution and productivity, price more effectively, strengthen SBUs, and grow operating profit in each country.

We have a great team in place and the ability to make it happen.

## financial section

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## Selected Consolidated Financial Data

The following table sets forth certain selected consolidated financial data and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") and our consolidated financial statements and notes thereto appearing elsewhere in this annual report.

Five Year Financial Summary	Year ended January 31,				
	2004 <sup>(1)</sup>	2003	2002	2001	2000
	<i>(In thousands, except per share data)</i>				
<b>Income statement data:</b>					
Net sales . . . . .	\$17,406,340	\$15,738,945	\$17,197,511	\$20,427,679	\$16,991,750
Cost of products sold . . . . .	16,424,694	14,907,187	16,269,481	19,331,616	16,058,086
Gross profit . . . . .	981,646	831,758	928,030	1,096,063	933,664
Selling, general and administrative expenses . . . . .	812,965	612,728	677,914	733,307	661,792
Special charges <sup>(2)</sup> . . . . .	3,065	328,872	27,000	—	—
Operating income (loss) . . . . .	165,616	(109,842)	223,116	362,756	271,872
Loss on disposition of subsidiaries, net . . . . .	—	5,745	—	—	—
Interest expense, net . . . . .	16,566	24,045	55,419	92,285	65,965
Net foreign currency exchange (gain) loss . . . . .	(1,893)	(6,942)	(143)	(3,884)	5,153
Income (loss) before income taxes . . . . .	150,943	(132,690)	167,840	274,355	200,754
Provision for income taxes . . . . .	46,796	67,128	57,063	96,033	72,837
Income (loss) before minority interest . . . . .	104,147	(199,818)	110,777	178,322	127,917
Minority interest . . . . .	—	—	—	339	416
Net income (loss) . . . . .	\$ 104,147	\$ (199,818)	\$ 110,777	\$ 177,983	\$ 127,501
Net income (loss) per common share:					
Basic . . . . .	\$ 1.83	\$ (3.55)	\$ 2.04	\$ 3.34	\$ 2.47
Diluted . . . . .	\$ 1.81	\$ (3.55)	\$ 1.98	\$ 3.14	\$ 2.34
Weighted average common shares outstanding:					
Basic . . . . .	56,838	56,256	54,407	53,234	51,693
Diluted . . . . .	57,501	56,256	60,963	59,772	58,508
Dividends per common share . . . . .					
	—	—	—	—	—
<b>Balance sheet data:</b>					
Working capital . . . . .	\$ 1,525,432	\$ 1,399,283	\$ 1,390,657	\$ 967,283	\$ 795,589
Total assets . . . . .	4,167,886	3,248,018	3,458,330	4,615,545	4,123,818
Revolving credit loans . . . . .	80,221	188,309	86,046	1,249,576	1,006,809
Long-term debt . . . . .	307,934	314,498	612,335	320,757	316,840
Other long-term liabilities . . . . .	46,591	16,155	4,737	—	—
Shareholders' equity . . . . .	1,658,489	1,338,530	1,259,933	1,195,314	1,013,695

(1) See MD&A for effects of Azlan acquisition and adoption of Emerging Issues Task Force Issue ("EITF") No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor."

(2) See Note 12 of Notes to Consolidated Financial Statements.

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

## Forward-Looking Statements

This Annual Report on Form 10-K, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements, as described in the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks and uncertainties and actual results could differ materially from those projected. These forward-looking statements regarding future events and the future results of Tech Data Corporation are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances, are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are referred to the cautionary statements and important factors discussed in Exhibit 99-A of our Annual Report on Form 10-K for the year ended January 31, 2004 for further information. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Factors that could cause actual results to differ materially include the following:

- intense competition, both domestically and internationally
- narrow profit margins
- inventory risks due to shifts in market demand
- dependence on information systems
- credit exposure due to the deterioration in the financial condition of our customers
- the inability to obtain required capital
- fluctuations in interest rates
- potential adverse effects of acquisitions
- foreign currency exchange rates and exposure to foreign markets

- the impact of changes in income tax and other regulatory legislation
- changes in accounting rules
- product supply and availability
- dependence on independent shipping companies
- changes in vendor terms and conditions
- changes in general economic conditions
- exposure to natural disasters, war and terrorism
- potential impact of labor strikes
- volatility of common stock
- accuracy of forecast data

Additional discussion of these and other factors affecting our business and prospects is contained in our periodic filings with the SEC, copies of which can be obtained at the Investor Relations section of our website at [www.techdata.com](http://www.techdata.com).

## Results of Operations

Starting in the first quarter of fiscal 2004, we modified our management structure and combined our U.S., Canadian and Latin American operations into the Americas region. Our Canadian and Latin American operations were previously reported separately as the Other International region. Prior year amounts have been reclassified to conform to the current period presentation.

## Overview

During fiscal 2004, we saw our worldwide net sales grow to \$17.4 billion, a 10.6% increase over fiscal 2003. This growth can be attributed to the performance of our European operations, where net sales grew 29.3% over fiscal 2003 as a result of our acquisition of Azlan Group PLC ("Azlan"), one of the leading distributors of networking and communications equipment in Europe; the strengthening of the euro, and stronger market demand during the second half of fiscal 2004 compared to 2003. European net sales represented 55% of our worldwide net sales during fiscal 2004. Net sales in the Americas declined by 6.0% in fiscal 2004 compared to fiscal 2003 due to the continued economic slowdown and the highly competitive market conditions within the United States. However, similar to Europe, the Americas saw stronger demand and reported positive, albeit slight, year-over-year growth during the second half of the year.

Gross profit as a percentage of net sales ("gross margin") during fiscal 2004 was 5.64%, compared to 5.28% in fiscal 2003. This increase was largely due to the acquisition of Azlan, which reports higher gross margins on a relative basis than the rest of our worldwide operations, and the impact of implementing Emerging Issues Task Force Number 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("EITF Issue No. 02-16"). EITF Issue No. 02-16 resulted in a reclassification of funds received from vendors amounting to \$51.6 million from selling, general and administrative expenses ("SG&A"), with \$45.3 million recorded as a reduction of cost of goods sold, thereby increasing gross margin, and the remaining \$6.3 million being deferred until the related inventory is sold. The background and impact of EITF Issue No. 02-16 is discussed in greater detail later in this document. Absent the impact of Azlan and EITF Issue No. 02-16, our gross margin in fiscal 2004 would have declined compared to fiscal 2003. This decline was most pronounced in the Americas due to the highly competitive pricing environment and our desire to maintain, and in some cases, increase our market share.

SG&A as a percentage of net sales increased to 4.67% in fiscal 2004, compared to 3.89% in fiscal 2003. This increase is primarily attributable to the higher cost structure of Azlan and the impact of EITF Issue No. 02-16. Excluding these impacts, our SG&A as a percentage of net sales would have been roughly flat on a year-over-year basis, as we responded to the decrease in net sales on a local currency basis with improvements to the productivity and efficiency of our operations.

Operating income as a percentage of net sales ("operating margin") was .95% of net sales, or 95 basis points, during fiscal 2004, compared to a negative 70 basis points during fiscal 2003. Fiscal 2004 and 2003 included special charges which reduced operating income by two basis points and 209 basis points, respectively. Excluding the impact of these special charges, operating margin declined by 42 basis points during fiscal 2004

compared to 2003. This decline is largely the result of the pricing pressure we saw in the Americas, where operating margins decreased to 1.54% of net sales in fiscal 2004, compared to 1.90% in 2003. In Europe, operating margins were adversely affected by competitive pricing in the region, although not as intense as that seen in the Americas, and incremental costs incurred during fiscal 2004 for employee severance costs and the harmonization and upgrade of our European systems infrastructure.

The following table sets forth our Consolidated Statement of Income as a percentage of net sales for each of the three most recent fiscal years:

	Percentage of Net Sales		
	Year ended January 31,		
	2004	2003	2002
Americas . . . . .	45.04%	52.98%	57.94%
Europe . . . . .	54.96	47.02	42.06
Net sales . . . . .	100.00	100.00	100.00
Cost of products sold . . . . .	94.36	94.72	94.60
Gross profit . . . . .	5.64	5.28	5.40
Selling, general and administrative expenses . . . . .	4.67	3.89	3.94
Special charges . . . . .	0.02	2.09	0.16
Operating income (loss) . . . . .	0.95	(0.70)	1.30
Loss on disposition of subsidiaries, net . . . . .	—	0.03	—
Interest expense . . . . .	0.13	0.22	0.39
Interest income . . . . .	(0.04)	(0.07)	(0.07)
Net foreign currency exchange gain . . . . .	(0.01)	(0.04)	—
Income (loss) before income taxes . . . . .	0.87	(0.84)	0.98
Provision for income taxes . . . . .	0.27	0.43	0.34
Net income (loss) . . . . .	0.60%	(1.27)%	0.64%

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

(Continued)

**Non-GAAP Financial Information**

The following reconciliation details the adjustments between results calculated using Generally Accepted Accounting Principles ("GAAP") and the same results reported excluding special charges, the loss on disposition of subsidiaries and related tax effects ("non-GAAP information"). The non-GAAP information is included with the intention of providing investors a more complete understanding of our underlying operational results and trends, but should only be used in conjunction with results reported in accordance with GAAP.

	Year ended January 31, 2004			Year ended January 31, 2003		
	As Reported under GAAP	Impact of Special Charges	Non-GAAP Financial Measures	As Reported under GAAP	Impact of Special Charges and Loss on Dispositions	Non-GAAP Financial Measures
	(Amounts in thousands except per share amounts)					
Net sales . . . . .	\$17,406,340	\$ —	\$17,406,340	\$15,738,945	\$ —	\$15,738,945
Cost of products sold . . . . .	16,424,694	—	16,424,694	14,907,187	—	14,907,187
Gross profit . . . . .	981,646	—	981,646	831,758	—	831,758
Selling general and administrative expenses . . . . .	812,965	—	812,965	612,728	—	612,728
Special charges . . . . .	3,065	(3,065) <sup>(1)</sup>	—	328,872	(328,872) <sup>(2)</sup>	—
Operating income (loss) . . . . .	165,616	3,065	168,681	(109,842)	328,872	219,030
Loss on disposition of subsidiaries, net . . . . .	—	—	—	5,745	(5,745) <sup>(3)</sup>	—
Interest expense . . . . .	23,217	—	23,217	35,433	—	35,433
Interest income . . . . .	(6,651)	—	(6,651)	(11,388)	—	(11,388)
Net foreign currency exchange gain . . . . .	(1,893)	—	(1,893)	(6,942)	—	(6,942)
Income (loss) before income taxes . . . . .	150,943	3,065	154,008	(132,690)	334,617	201,927
Provision for income taxes . . . . .	46,796	1,073 <sup>(4)</sup>	47,869	67,128	(1,537) <sup>(4)</sup>	65,591
Net income (loss) . . . . .	\$ 104,147	\$ 1,992	\$ 106,139	\$ (199,818)	\$ 336,154	\$ 136,336
Net income (loss) per common share—diluted . . . . .	\$ 1.81		\$ 1.85	\$ (3.55)		\$ 2.35
Weighted average common shares outstanding—diluted . . . . .	57,501		57,501	56,256 <sup>(5)</sup>		61,743

(1) Special charge recorded in fiscal 2004 related to the closure of the Company's U.S. education business.

(2) Goodwill impairment recorded in fiscal 2003.

(3) Loss on sale of Argentina offset by the gain on liquidation of a European financing subsidiary.

(4) Tax effect of "non-GAAP" adjustments.

(5) See Note 1 of Notes to Consolidated Financial Statements for shares excluded from the EPS calculation due to their anti-dilutive effect.

**Net Sales**

The following table represents our net sales by geographic segment:

	Year ended January 31,				
	2004	% Change	2003	% Change	2002
	(Dollar amounts in thousands)				
Net Sales:					
Americas . . . . .	\$ 7,839,425	(6.0)%	\$ 8,337,796	(16.3)%	\$ 9,964,260
Europe . . . . .	9,566,915	29.3	7,401,149	2.3	7,233,251
Total . . . . .	<u>\$17,406,340</u>	10.6	<u>\$15,738,945</u>	(8.5)	<u>\$17,197,511</u>

Our net sales within the Americas declined on a year-over-year basis during fiscal 2004 and 2003. The vast majority of these declines took place within the United States, where our performance was adversely affected by the general economic slowdown, the effect of highly competitive market conditions within the distribution industry and the direct sales efforts of certain vendors, primarily HP.

Our net sales within Europe increased on a year-over-year basis during fiscal 2004 and 2003. During fiscal 2004, this increase was primarily driven by the inclusion of Azlan, which was acquired in March 2003, and the stronger euro versus the U.S. dollar. Our "legacy" European operations (i.e., excluding Azlan) experienced a slight year-over-year decrease in net sales on a local currency basis during fiscal 2004.

Our year-over-year decline in net sales during fiscal 2004 in our legacy European operations on a local currency basis is primarily due to the impact of lower demand for technology products and services during the first half of this year and our exit last year from certain markets in Europe, more than offsetting the positive growth we saw during the second half of fiscal 2004, as further discussed below. Our year-over-year decline in net sales during fiscal 2003 was primarily attributed to the general slowdown of the IT industry during the period.

During the second semester of fiscal 2004, we began to see an improvement in sales performance on a local currency basis within both regions, and, in fact, experienced positive sales growth on a year-over-year basis, with the Americas growing approximately 1.5% during the second semester while our legacy European operations experienced sales growth in the mid-single digits on a percentage basis in local currency. This positive growth can be attributed to an improvement in general market demand during the second half of fiscal 2004 in both regions and our desire to maintain and, in some cases, increase our market share position with certain customers and/or vendors, while still achieving acceptable profit margins.

### **Gross Profit**

Our consolidated gross margin increased 36 basis points in fiscal 2004 compared to the prior year, after declining by 12 basis points during fiscal 2003, compared to fiscal 2002. The increase in gross margin during fiscal 2004 is largely the result of the inclusion of the operating results of Azlan (which realize higher gross margins than our legacy operations) and the impact of our adoption of EITF Issue No. 02-16 as discussed below, offset by declining product gross margins in our legacy operations. Our legacy operations experienced a year-over-year decline in gross margins due to the highly competitive pricing environment during the period, especially in the Americas, and our desire to maintain or, in some cases, increase our market share position, as previously discussed above. In addition, as we analyzed business opportunities, our low cost structure allowed us to realize, in many cases, acceptable operating profits in spite of lower gross margins. The 12 basis point decrease in gross margin during fiscal 2003, as compared to fiscal 2002, was due to our European operations, which saw generally greater competitive margin pressures in an attempt to maintain market share.

Gross margin within both operating segments for fiscal year 2004 includes a reclassification pursuant to EITF Issue No. 02-16. EITF Issue No. 02-16 requires that, under certain circumstances, consideration received from vendors be treated as a reduction of cost of goods sold and not as a reduction of selling, general and administrative expenses. EITF Issue No. 02-16 further requires the recognition of such consideration be deferred until the related inventory is sold. The new guidance was applicable to vendor arrangements entered into or modified subsequent to December 31, 2002. As a result of implementing EITF Issue No. 02-16, for fiscal year 2004, we reclassified approximately \$51.6 million (.30% of net sales) from selling, general and administrative expenses with \$45.3 million (.26% of net sales) recorded as a reduction of cost of goods sold and the remaining \$6.3 million (.04% of net sales) recorded as deferred revenue (offsetting inventory on the balance sheet) pending sale of the related inventory. During the fourth quarter of fiscal 2004, which represents the first quarter where EITF Issue No. 02-16 was applicable to all our vendor arrangements, we reclassified approximately \$21.7 million (.44% of net sales) from selling, general and administrative expenses with \$19.7 million (.40% of net sales) recorded as a reduction of cost of goods sold and the remaining \$2.0 million (.04% of net sales) recorded as deferred revenue. Going forward, we do not expect there to be material deviations in the deferred revenue balance, however, the actual deferred revenue amounts recorded will be based on the nature and amount of vendor funding received and related quarter-end inventory levels. Similarly, to the extent there are no material changes to our future vendor agreements, of which no assurance can be made, we would expect the relative impact on gross margin and selling, general and administrative expenses in future quarters to be in the range of that experienced during the fourth quarter of fiscal 2004.

### **Operating Expenses**

#### *Selling, General and Administrative Expenses*

During fiscal 2004, SG&A increased by 32.7%, or \$200.2 million from the prior year.

Similar to the increase in net sales and gross profit, the increase in SG&A for fiscal year 2004 can be attributed primarily to the inclusion of the results from Azlan, the strengthening of the euro against the U.S. dollar, and our adoption of EITF Issue No. 02-16. Also impacting our SG&A this year are the project and operating costs we have incurred for the harmonization and upgrade of our European systems infrastructure. Such costs expensed during fiscal 2004 approximated \$24.2 million compared to \$9.0 million in the prior year. Excluding the above factors, SG&A incurred by our legacy operations actually declined year-over-year on a local currency basis. This SG&A performance would have been more favorable had we not incurred charges this year associated with workforce reductions in excess of the amount incurred in the prior year.

During fiscal 2003, SG&A decreased by 9.6% or \$65.2 million from the prior year. On a relative basis, SG&A decreased five basis points to 3.89% of net sales compared to 3.94% in fiscal 2002. Included in the \$65.2 million in cost reductions are \$8.6 million related to the elimination of goodwill amortization, as

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

(Continued)

required by Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 142, "Goodwill and Other Intangible Assets." However, this reduction was offset almost entirely by the approximate \$9.0 million that we expensed on harmonizing and upgrading our European systems infrastructure during fiscal 2003.

We achieved the SG&A performance described above through our constant monitoring of costs, including tight budgetary controls and productivity reviews. These productivity reviews result in a highly variable cost model with an ability to better respond to changes in market demand compared to those companies with high fixed costs. As an example, during the economic downturn, we have managed our total headcount within our legacy operations down by over 30% from the fourth quarter of fiscal 2001, most of which came from general attrition. Likewise, we dramatically cut back on and continue to closely monitor discretionary expenses such as travel-related costs, consulting and supplies.

### *Special Charges*

During fiscal 2004, we incurred special charges of \$3.1 million, or .02% of net sales, related to the closure of our education business in the United States and the restructuring of this business to a more variable cost-based, outsourced model. These charges primarily include costs associated with employee severance, facility lease terminations and the write-offs of fixed assets associated with the business.

During fiscal 2003, operating income was negatively affected by a \$328.9 million impairment to goodwill resulting from the application of SFAS No. 142. SFAS No. 142 revised the standards of accounting for goodwill by replacing the amortization of these assets with the requirement that they be reviewed annually for impairment, or more frequently if impairment indicators arise. During the fourth quarter of fiscal 2003, we performed our annual test of goodwill to determine if there was impairment. This testing included the determination of each reporting unit's fair value using market multiples and discounted cash flows modeling. Our reduced earnings and cash flow forecast, primarily due to the prolonged downturn in the economy, uncertain demand, and competitive industry conditions, resulted in the determination that a goodwill impairment charge was necessary. The \$328.9 million non-cash charge was recorded in the fourth quarter of fiscal 2003. In performing the annual test for goodwill impairment for fiscal 2004 and fiscal 2002, we determined there was no impairment.

During fiscal 2002, we incurred special charges of \$27.0 million. These special charges related to the recording of: a) the write-off of previously capitalized software costs (\$20.1 million); b) the impairment of certain Internet-related investments (\$5.4 million) and; c) the write-off of development costs associated with a new German logistics center (\$1.5 million), the construction of which has been indefinitely deferred. The remaining Internet-related investment had a carrying value of approximately \$2.4 million at January 31, 2004 and 2003. Investments in these types of technologies are inherently risky and we could lose the remainder of our investment.

### *Loss on Disposition of Subsidiaries*

During fiscal 2003, as a result of currency-related issues, political instability and continued economic concerns in the country, we decided to sell our operations in Argentina to local management. In addition, during the fourth quarter of fiscal 2003, we liquidated one of our European financing subsidiaries. With respect to the Argentina transaction, we recorded a charge of approximately \$2.4 million on the sale, in addition to the realization of approximately \$14.5 million in foreign currency exchange losses previously recorded in shareholders' equity as accumulated other comprehensive income (loss). In connection with the liquidation of the European financing subsidiary, we repatriated approximately \$70.0 million of capital, which resulted in the realization of approximately \$11.2 million in foreign currency exchange gains previously recorded in shareholders' equity as accumulated other comprehensive income (loss). The net effect of these transactions resulted in a total pre-tax loss of approximately \$5.7 million, recorded within Loss on Disposition of Subsidiaries during fiscal 2003.

There were no significant gains or losses resulting from dispositions of subsidiaries during fiscal 2004 and 2002.

### *Interest Expense, Interest Income, Foreign Currency Exchange Gains/Losses*

Interest expense decreased 34.5% to \$23.2 million in fiscal 2004 from \$35.4 million in fiscal 2003. As more fully described below, we redeemed our \$300.0 million, 5% convertible subordinated debentures during the fourth quarter of fiscal 2003. The debt instruments we utilized during fiscal 2004 were at lower interest rates as compared to the redeemed debentures, and accordingly, resulted in significantly lower interest expense. Interest income decreased 41.6% to \$6.7 million in fiscal 2004 from \$11.4 million in fiscal 2003. This reduction was primarily due to the use of excess cash to reduce debt and to fund a portion of the Azlan acquisition in March 2003.

Interest expense decreased 46.9% to \$35.4 million in fiscal 2003 from \$66.7 million in fiscal 2002. This decrease was the result of a significant reduction in our average outstanding indebtedness and a decline in our interest rates. The decrease in fiscal 2003 was slightly offset as a result of a \$3.0 million premium payment related to the redemption of our \$300.0 million, 5% convertible subordinated debentures on December 12, 2002. The debentures, scheduled to mature on July 1, 2003, were redeemed at a price of 101% or \$303.0 million. This redemption allowed us to take advantage of the current lower interest rate environment. Interest income remained relatively flat at \$11.4 million, increasing less than 1.0% over fiscal 2002.

We realized net foreign currency exchange gains of \$1.9 million, \$6.9 million and \$0.1 million during the fiscal years ended January 31, 2004, 2003, and 2002, respectively. We recognize net foreign currency exchange gains and losses primarily due to the fluctuation in the value of the U.S. dollar versus the euro, and to a lesser extent, versus other currencies. It continues to be our goal to minimize foreign currency exchange gains and losses through an effective hedging program. Additionally, our hedging policy prohibits speculative foreign currency exchange transactions.



### **Provision for Income Taxes**

Our effective tax rate was 31.0% in fiscal 2004 compared to 50.6% in fiscal 2003. The change in effective tax rate is primarily due to non-deductible special charges recognized during fiscal 2003. Due to a decrease in our taxable income before special charges, the provision for income taxes decreased 30.3% to \$46.8 million in fiscal 2004 as compared to \$67.1 million in fiscal 2003.

Our effective tax rate was 50.6% in fiscal 2003 compared to 34.0% in fiscal 2002 with the change again being primarily due to non-deductible charges recognized in fiscal 2003. The provision for income taxes increased 17.6% to \$67.1 million in fiscal 2003 from \$57.1 million in fiscal 2002. This tax increase was primarily due to an increase in fiscal 2003 taxable income as compared to fiscal 2002.

The effective tax rates are also impacted by favorable tax audit results, cumulative and current period net operating losses in certain geographic regions, and management's determination of the related deferred tax asset that is more likely than not to be realized.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws or interpretations thereof. In addition, we are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. At January 31, 2004, the Company believes it has appropriately accrued for probable income tax exposures. To the extent the Company were to prevail in matters for which accruals have been established or be required to pay amounts in excess of such accruals, the Company's effective tax rate in a given financial statement period could be materially affected.

### **Net Income and Earnings Per Share**

As a result of the factors described above, net income increased to \$104.1 million in fiscal 2004, or \$1.81 per diluted share, compared to a net loss of (\$199.8) million, or (\$3.55) per diluted share in fiscal 2003. Excluding special charges and the loss on disposition of subsidiaries, net income decreased to \$106.1 million, or \$1.85 per diluted share in fiscal 2004 compared to \$2.35 per diluted share in fiscal 2003.

As a result of the factors described above, net income decreased to a net loss of (\$199.8) million in fiscal 2003, or (\$3.55) per diluted share, compared to net income of \$110.8 million, or \$1.98 per diluted share in fiscal 2002. As discussed above, special charges and the loss on disposition of subsidiaries incurred during fiscal 2003 had the impact of reducing our diluted earnings per share by \$5.90 per share. Special charges incurred during fiscal 2002 had the impact of reducing our diluted earnings per share by \$.29 per share.

### **Critical Accounting Policies and Estimates**

The information included within Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an ongoing basis, we evaluate these estimates, including those related to bad debts, inventory, vendor incentives, goodwill and intangible assets, deferred taxes, and contingencies. Our estimates and judgments are based on currently available information, historical results, and other assumptions we believe are reasonable. Actual results could differ materially from these estimates. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

#### *Accounts Receivable*

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. In estimating the required allowance, we take into consideration the overall quality and aging of the receivable portfolio, the existence of credit insurance and specifically identified customer risks. If actual customer performance were to deteriorate to an extent not expected by us, additional allowances may be required which could have an adverse effect on our financial results.

#### *Inventory*

We value our inventory at the lower of its cost or market value. We write down our inventory for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value based upon an aging analysis of the inventory on hand, specifically known inventory-related risks, foreign currency fluctuations for foreign-sourced product and assumptions about future demand. Market conditions that are less favorable than those projected by management may require additional inventory write-downs, which could have an adverse effect on our financial results.

#### *Vendor Incentives*

We receive incentives from vendors related to cooperative advertising allowances, personnel funding, volume rebates and other incentive agreements. These incentives are generally under quarterly, semi-annual or annual agreements with the vendors; however, some of these incentives are negotiated on an ad hoc basis to support specific programs mutually developed with the vendor.

We have historically recorded unrestricted volume rebates and early payment discounts received from vendors as a reduction of inventory and recognized the incentives as a reduction of cost of products sold when the related inventory was sold. With the implementation of EITF Issue No. 02-16, such treatment is also applicable for all other incentives we receive from vendors, such as cooperative advertising allowances and personnel funding. The impact of the implementation of EITF Issue No. 02-16 is discussed within the Results of Operations section of this document.

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

(Continued)

## *Goodwill and Intangible Assets*

The carrying value of goodwill is reviewed annually for impairment. Goodwill may also be reviewed more frequently if current events and circumstances indicate a possible impairment. An impairment loss is charged to expense in the period identified.

We also examine the carrying value of our intangible assets with finite lives, which includes capitalized software and development costs and purchased intangibles, as current events and circumstances warrant determining whether there are any impairment losses. If indicators of impairment are present in intangible assets used in operations and future cash flows are not expected to be sufficient to recover the assets' carrying amount, an impairment loss is charged to expense in the period identified.

## *Deferred Taxes*

We record valuation allowances to reduce our deferred tax assets to the amount expected to be realized. In assessing the adequacy of recorded valuation allowances, we consider a variety of factors including, the scheduled reversal of deferred tax liabilities, future taxable income, and prudent and feasible tax planning strategies. In the event we determine we would be able to use a deferred tax asset in the future in excess of its net carrying value, an adjustment to the deferred tax asset would reduce income tax expense, thereby increasing net income in the period such determination was made. However, the recognition of any future tax benefit resulting from the reduction of the \$11.2 million valuation allowance associated with the purchase of Azlan would be recorded as a reduction in goodwill. Should we determine that we are unable to use all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income tax expense, thereby reducing net income in the period such determination was made.

## *Contingencies*

We accrue for contingent obligations, including estimated legal costs, when the obligation is probable and the amount is reasonably estimable. As facts concerning contingencies become known, we reassess our position and make appropriate adjustments to the financial statements. Estimates that are particularly sensitive to future changes include tax, legal and other regulatory matters such as imports and exports, which are subject to change as events evolve and as additional information becomes available during the administrative and litigation process.

## **Recent Accounting Pronouncements**

See Note 1 of Notes to Consolidated Financial Statements for the discussion on recent accounting pronouncements.

## **Impact of Inflation**

We have not been adversely affected by inflation, as technological advances and competition within the microcomputer industry have generally caused the prices of the products we sell to decline. Management believes that most price increases could be passed on to our customers, as prices charged by us are not set by long-term contracts; however, as a result of competitive pressure, there can be no assurance that the full effect of any such price increases could be passed on to our customers.

## **Quarterly Data—Seasonality**

Our quarterly operating results have fluctuated significantly in the past and will likely continue to do so in the future as a result of seasonal variations in the demand for the products and services we offer. Narrow operating margins may magnify the impact of these factors on our operating results. Specific historical seasonal variations have included a reduction of demand in Europe during the summer months and an increase in European demand during our fiscal fourth quarter. The product cycle of major products and any company acquisition or disposition may also materially impact our business, financial condition, or results of operations. See Note 13 of Notes to Consolidated Financial Statements for further information regarding our quarterly results.

## **Liquidity and Capital Resources**

Net cash provided by operating activities of \$303.2 million in fiscal 2004 was primarily attributable to net income adjusted for non-cash charges and the positive effect of our focus on working capital management. One outcome of our working capital management was the reduction of our owned inventory levels (the percentage of inventory not financed by vendors) to a negative 24% at the end of fiscal 2004, meaning our accounts payable balances exceeded our inventory balances by 24%. This compares to a negative owned inventory of 8% at the end of fiscal 2003. We also monitor our cash conversion cycle or net cash days, defined as days sales outstanding in accounts receivable ("DSO") plus days of supply on hand in inventory ("DOS"), less days purchases outstanding in accounts payable ("DPO") as a key indicator of our working capital management. At the end of fiscal 2004, our net cash days were 32.9 days compared to 37.1 days at the end of fiscal 2003. DSO is calculated as quarter end accounts receivable divided by average daily net sales during the quarter. DOS is calculated as quarter end inventory divided by average daily cost of goods sold during the quarter. DPO is calculated as quarter end accounts payable divided by average daily cost of goods sold during the quarter.

Net cash used in investing activities of \$251.5 million during fiscal 2004 was primarily attributable to the acquisition of Azlan and the continued investment related to the expansion of our management information systems, office facilities and equipment for our logistics centers, which included \$18.3 million in capitalized costs related to harmonizing and upgrading our European systems infrastructure. We expect to make capital expenditures of approximately \$55.0–\$60.0 million during fiscal 2005 to further expand or upgrade our IT systems, logistics centers and office facilities, which include approximately \$14.0–\$18.0 million to continue upgrading our European systems infrastructure. We continue to make significant investments to implement new IT systems and upgrade our existing IT infrastructure in order to meet our changing business requirements. These implementations and upgrades occur at various levels throughout our organization and include, but are not limited to, new operating and enterprise systems, financial systems, web technologies, customer relationship management systems and telecommunications. While we believe we will realize increased operating efficiencies as a result of these

investments, unforeseen circumstances or complexities could have an adverse impact on our business.

Net cash used in financing activities of \$110.7 million during fiscal 2004 reflects the use of cash to pay down our revolving credit facilities partially offset by the proceeds from stock option exercises and purchases made through our Employee Stock Purchase Plan.

As of January 31, 2004, we maintained a \$250.0 million Multi-currency Revolving Credit Facility with a syndicate of banks that expires in May 2006. We pay interest (average rate of 2.60% at January 31, 2004) under this facility at the applicable eurocurrency rate plus a margin based on our credit ratings. Additionally, we maintained a \$400.0 million Receivables Securitization Program with a syndicate of banks that expires in August 2004, which we intend to renew. We pay interest (average rate of 1.73% at January 31, 2004) on the Receivables Securitization Program at designated commercial paper rates plus an agreed-upon margin. In addition to these credit facilities, we maintained lines of credit and overdraft facilities totaling approximately \$598.7 million (average interest rate on borrowings was 3.11% at January 31, 2004).

The aforementioned credit facilities total approximately \$1.2 billion, of which \$80.2 million was outstanding at January 31, 2004. These credit facilities contain covenants that must be complied with on a continuous basis, including the maintenance of certain financial ratios, restrictions on payment of dividends and restrictions on the amount of common stock that may be repurchased annually. We were in compliance with all such covenants as of January 31, 2004. The ability to draw funds under these credit facilities is dependent upon sufficient collateral (in the case of the Receivables Securitization Program) and meeting the aforementioned financial covenants, which limits our ability to draw the full amount of these facilities. For example, our total borrowings on certain credit facilities are limited to a multiple of our earnings before interest, taxes, depreciation, and amortization ("EBITDA") recognized during the last twelve months. The EBITDA calculation within our covenants allows for certain special charges, such as goodwill impairments, to be excluded. As of January 31, 2004, the maximum amount that could be borrowed under these facilities, in consideration of the availability of collateral and the financial covenants, was approximately \$675 million. In addition, at January 31, 2004, we had issued standby letters of credit of \$28.1 million. These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The issuance of these letters of credit reduces our available capacity under our credit agreements by the same amount. For a more detailed discussion of our credit facilities, see Note 5 of Notes to Consolidated Financial Statements.

In December 2001, we issued \$290.0 million of convertible subordinated debentures due 2021. The debentures bear interest at 2% per year and are convertible into our common stock at any time, if the market price of the common stock exceeds a specified

percentage of the conversion price per share of common stock, beginning at 120% and declining 1/2% each year until it reaches 110% at maturity, or in other specified instances. Holders may convert debentures into 16.7997 shares per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$59.53 per share. The debentures are convertible into 4,871,913 shares of our common stock. Holders have the option to require us to repurchase the debentures on any of the fourth, eighth, twelfth or sixteenth anniversary dates from the issue date at 100% of the principal amount plus accrued interest to the repurchase date. Although it is our intention to use cash to satisfy any debentures submitted for repurchase, we have the option to satisfy such repurchases in either cash and/or our common stock, provided that shares of common stock at the first purchase date will be valued at 95% of fair market value (as defined in the indenture) and at 97.5% of fair market value for all subsequent purchase dates. The debentures are redeemable in whole or in part for cash, at our option at any time on or after December 20, 2005. We will pay contingent interest on the debentures during specified six-month periods beginning on December 15, 2005, if the market price of the debentures exceeds specified levels. In addition, the dilutive impact of the \$290.0 million of convertible subordinated debentures, due 2021, is excluded from the diluted earnings per share calculations due to the conditions for the contingent conversion feature not being met.

In December 2002, the Company redeemed \$300.0 million, 5% convertible subordinated debentures at a price of 101%, or \$303.0 million, plus interest accrued to the redemption date. The redemption was funded through a combination of cash on hand and borrowings under the Company's revolving credit loans. Unamortized deferred debt issuance costs associated with the issuance of the debentures were not significant.

In August 2000, we filed a universal shelf registration statement with the SEC for \$500.0 million of debt and equity securities. The net proceeds from any issuance are expected to be used for general corporate purposes, including capital expenditures, the repayment or refinancing of debt and to meet working capital needs. As of January 31, 2004, we had not issued any debt or equity securities under this registration statement, nor can any assurances be given that we will issue any debt or equity securities under this registration statement in the future.

Our balance sheet at January 31, 2004 was one of the strongest in our history as evidenced by a senior debt to capital ratio of 5% and a total debt to capital ratio of 19%. We believe that our existing sources of liquidity, including cash resources and cash provided by operating activities, supplemented as necessary with funds available under our credit arrangements, will provide sufficient resources to meet our present and future working capital and cash requirements for at least the next 12 months.

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

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### Contractual Obligations

Principal maturities of long-term debt and amounts due under future minimum lease payments are as follows:

	Operating Leases	Capital Leases	Long- Term Debt	Total
<i>(In thousands)</i>				
Fiscal year:				
2005 . . . . .	\$ 63,954	\$ 2,580	\$ 7,792	\$ 74,326
2006 . . . . .	56,455	2,580	—	59,035
2007 . . . . .	44,945	2,580	—	47,525
2008 . . . . .	38,820	2,580	—	41,400
2009 . . . . .	27,490	1,794	—	29,284
Thereafter . . . . .	123,639	13,270	290,000	426,909
Total payments . . . . .	355,303	25,384	297,792	678,479
Less amounts representing interest . . . . .	—	(5,984)	—	(5,984)
Total principal payments . . . . .	<u>\$355,303</u>	<u>\$19,400</u>	<u>\$297,792</u>	<u>\$672,495</u>

Purchase orders for the purchase of inventory and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders typically represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding on Tech Data and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current demand expectations and are fulfilled by our vendors within short time horizons. We do not have significant non-cancelable agreements for the purchase of inventory or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months. We also enter into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

### Off-Balance Sheet Arrangements

#### *Synthetic Lease Facility*

On July 31, 2003, we completed a restructuring of our synthetic lease facility with a group of financial institutions (the "Restructured Lease") under which we lease certain logistics centers and office facilities from a third-party lessor. The Restructured Lease expires in 2008, at which time we have the following options: renew the lease for an additional five years, purchase the properties at an amount equal to their cost, or remarket the properties. If we elect to remarket the properties, we have guaranteed the lessor

a percentage of the cost of each of the properties, in an aggregate amount of approximately \$121.1 million. At any time during the lease term, we may, at our option, purchase up to four of the seven properties, at an amount equal to each property's cost. The Restructured Lease contains covenants that must be complied with on a continuous basis, similar to the covenants described in certain of the aforementioned credit facilities. The amount funded under the Restructured Lease is treated as debt under the definition of the covenants required under both the Restructured Lease and the credit facilities. As of January 31, 2004, we were in compliance with all such covenants.

The Restructured Lease is fully funded at January 31, 2004, in the approximate amount of \$141.3 million. The sum of future minimum lease payments under the Restructured Lease at January 31, 2004 was approximately \$19.5 million. Properties leased under the Restructured Lease facility total 2.5 million square feet of space, with land totaling 224 acres located in Clearwater and Miami, Florida; Fort Worth, Texas; Fontana, California; Atlanta, Georgia; Swedesboro, New Jersey; and South Bend, Indiana.

The Restructured Lease has been accounted for as an operating lease. As discussed in Note 1 of Notes to Consolidated Financial Statements, the Financial Accounting Standards Board Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" requires us to evaluate whether an entity with which we are involved meets the criteria of a VIE and, if so, whether we are required to consolidate that entity. We have determined that the third-party lessor of our synthetic lease facility does not meet the criteria of a VIE and, therefore, is not subject to the consolidation provisions of FIN No. 46.

#### *Guarantees*

To encourage certain customers to purchase product from the Company, the Company provides financial guarantees to third-party lenders on behalf of those customers. The majority of these guarantees are for an indefinite period of time, where the Company would be required to perform if the customer is in default with the third-party lender. As of January 31, 2004 and 2003, the aggregate amount of guarantees under these arrangements totaled approximately \$18.6 million and \$21.8 million, respectively, of which approximately \$12.5 million and \$10.9 million, respectively, was outstanding. Additionally, the Company believes that, based on historical experience, the likelihood of a payment pursuant to such guarantees is remote. The Company also provides residual value guarantees related to the Restructured Lease.

The Company sold trade receivables to a financial institution, amounting to approximately \$33.6 million in January 2004. The transaction was accounted for as a sale and accordingly, has been excluded from the Consolidated Balance Sheet. Given these receivables were sold with recourse, the Company has considered the risk of loss associated with these receivables within its assessment of the adequacy of its allowance for doubtful accounts at January 31, 2004.

## Asset Management

We manage our 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 we add new product lines and when appropriate, we make large purchases, including cash purchases from manufacturers and publishers when the terms of such purchases are considered advantageous. Our contracts with most of our 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, we generally receive a credit for the impact on products in inventory, subject to certain limitations. In addition, we have the right to rotate a certain percentage of purchases, subject to certain limitations. Historically, price protection and stock rotation privileges as well as our inventory management procedures have helped to reduce the risk of loss of inventory value.

We attempt to control losses on credit sales by closely monitoring customers' creditworthiness through our IT systems, which contain detailed information on each customer's payment history and other relevant information. We have obtained credit insurance that insures a percentage of the credit extended by us to certain customers against possible loss. Customers who qualify for credit terms are typically granted net 30-day payment terms in the Americas. While credit terms in the European Union ("EU") vary by country, the vast majority of customers in the EU are granted credit terms ranging from 30-60 days. We also sell products on a prepay, credit card, cash on delivery and floor plan basis.

## Deferred Tax Assets

Deferred tax assets have been recorded for net operating loss carryforwards and other deductible temporary differences. Our deferred tax assets relate to subsidiary operations located in different countries with separate taxing jurisdictions. Although aggregate foreign operations generate pre-tax income, certain subsidiaries have a history of net operating losses.

The net change in the deferred income tax valuation allowance was an increase of \$33.3 million at January 31, 2004 with approximately \$11.2 million of this increase being associated with the acquisition of Azlan. To the extent the Azlan acquisition-related deferred tax assets are realized in future periods, such benefit would be recorded as a reduction in goodwill.

The deferred tax valuation allowance at January 31, 2004 primarily relates to foreign net operating loss carryforwards of \$323.1 million. The majority of the net operating losses have an indefinite carryforward period with the remaining portion expiring in years 2005 through 2014. We evaluate a variety of factors in determining the realizability of deferred tax assets including the scheduled reversal of deferred tax liabilities, projected future taxable income, and prudent and feasible tax planning strategies.

## Acquisitions

Effective March 31, 2003, we completed the acquisition of Azlan, a European distributor of networking and communications products and provider of training and other value-added services. Shareholders of Azlan received 125 pence per ordinary share, resulting in total cash consideration of approximately 144.7 million pounds sterling (\$224.4 million), which we funded from our existing credit facilities. We subsequently incurred acquisition-related expenses of approximately \$2.6 million for a total purchase price of \$227.0 million.

The Azlan acquisition strengthened our position in Europe with respect to networking products and value-added services and was accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations." In accordance with SFAS No. 141, the net assets and results of operations of Azlan have been included in our consolidated financial statements since the date of acquisition. See also Note 2 in Notes to Consolidated Financial Statements.

## Qualitative and Quantitative Disclosures About Market Risk

As a large international organization, we face exposure to adverse movements in foreign currency exchange rates. With our acquisition of Azlan and the sales performance this past year in Europe, the percentage of our business with exposure to currency risk is increasing. These exposures may change over time as business practices evolve and could have a material impact on our financial results in the future. In the normal course of business, we employ established policies and procedures to manage our exposure to fluctuations in the value of foreign currencies using a variety of financial instruments. It is our policy to utilize financial instruments to reduce risks where internal netting cannot be effectively employed and not to enter into foreign currency derivative instruments for speculative or trading purposes. Our primary exposure relates to transactions in Europe, Canada, and Latin America, where the currency collected from customers is different from the currency used to purchase the product. In addition, we have foreign currency risk related to debt that is denominated in currencies other than the U.S. dollar. Our foreign currency risk management objective is to protect our earnings and cash flows from the adverse impact of exchange rate changes. Foreign exchange risk is managed by using foreign currency forward, option and swap contracts to hedge intercompany loans, trade receivables and payables.

We have elected not to designate our foreign currency contracts as hedging instruments, and they are therefore marked-to-market with changes in their value recorded in the income statement each period. The underlying exposures are denominated primarily in the following currencies: U.S. dollar, British pound, Canadian dollar, Danish krone, euros, Swedish krona and Swiss franc.

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

(Continued)

The following table provides information about our foreign currency derivative financial instruments outstanding as of January 31, 2004 and 2003. The information is provided in United States dollar equivalents. For the foreign currency contracts, the table presents the notional amount (at contractual exchange rates) and the weighted average contractual foreign currency exchange rates. These contracts are generally for durations of 90 days or less.

Foreign Currency Contracts Notional Amounts by Expected Maturity Average Forward Foreign Currency Exchange Rate	January 31, 2004			January 31, 2003		
	Notional Amount	Weighted Average Contract Rate	Estimated Fair Market Value	Notional Amount	Weighted Average Contract Rate	Estimated Fair Market Value
<i>(Dollar amounts in millions, except weighted average contract rates)</i>						
<b>United States Dollar Functional Currency</b>						
<b>Forward Contracts—Purchase United States Dollar</b>						
Euro . . . . .	\$ 16.08	1.235	\$(0.05)	\$147.69	1.070	\$(0.30)
Swiss Franc . . . . .	1.37	1.258	—	17.56	1.424	(0.74)
Swedish Krona . . . . .	—	—	—	20.50	8.538	0.20
Danish Krone . . . . .	1.71	6.030	(0.02)	13.13	6.855	0.15
Polish Zloty . . . . .	—	—	—	5.12	3.905	(0.09)
British Pound . . . . .	125.72	1.771	(3.43)	—	—	—
<b>Forward Contracts—Sell United States Dollar</b>						
Canadian Dollar . . . . .	\$ —	—	\$ —	\$ 61.86	1.541	\$ 0.84
Euro . . . . .	36.37	1.239	0.19	10.65	1.065	0.07
British Pound . . . . .	54.28	1.759	1.81	32.29	1.615	0.55
Miscellaneous other currencies . . . . .	5.04	—	(0.02)	—	—	—
<b>Forward Contracts—Purchase British Pound</b>						
Euro . . . . .	\$ 91.61	1.431	\$ 1.85	\$ —	—	\$ —
Swiss Franc . . . . .	6.97	2.266	0.07	—	—	—
Danish Krone . . . . .	13.66	10.785	0.13	—	—	—
Miscellaneous other currencies . . . . .	25.49	—	0.62	—	—	—
<b>Forward Contracts—Sell British Pound</b>						
Euro . . . . .	\$ 14.59	1.437	\$(0.22)	\$ —	—	\$ —
Miscellaneous other currencies . . . . .	9.89	—	(0.23)	—	—	—
<b>Euro Functional Currency</b>						
<b>Forward Contracts—Purchase United States Dollar</b>						
Euro . . . . .	\$ —	—	\$ —	\$ 37.88	1.049	\$(0.84)
<b>Forward Contracts—Purchase Euro</b>						
United States Dollar . . . . .	\$ 67.02	1.252	\$(0.30)	\$ 7.24	1.064	\$ 0.06
British Pound . . . . .	10.59	1.429	(0.24)	11.81	1.532	—
Swiss Franc . . . . .	41.09	1.552	0.33	—	—	—
Canadian Dollar . . . . .	14.42	1.651	0.01	—	—	—
Miscellaneous other currencies . . . . .	23.30	—	0.36	10.27	—	0.03
<b>Forward Contracts—Sell Euro</b>						
United States Dollar . . . . .	\$ 39.02	1.247	\$ 0.06	\$ —	—	\$ —
British Pound . . . . .	45.60	1.579	(0.04)	—	—	—
Danish Krone . . . . .	23.48	7.452	—	—	—	—
Swedish Krona . . . . .	20.45	9.150	0.20	—	—	—
<b>Forward Contracts—Sell GBP</b>						
United States Dollar . . . . .	\$ 75.46	1.759	\$(2.53)	\$ —	—	\$ —

(Continued)

	January 31, 2004			January 31, 2003		
	Notional Amount	Weighted Average Contract Rate	Estimated Fair Market Value	Notional Amount	Weighted Average Contract Rate	Estimated Fair Market Value
<b>Euro Functional Currency (Continued)</b>						
<i>(Dollar amounts in millions, except weighted average contract rates)</i>						
<b>Purchased Call Options—Purchase United States Dollar</b>						
Euro . . . . .	\$ 2.07	1.199	\$ 0.02	\$ 4.15	1.059	\$ 0.01
Swiss Franc . . . . .	—	—	—	1.00	1.390	—
<b>Purchased Call Options—Purchase Euro</b>						
Swiss Franc . . . . .	\$ 3.74	1.570	\$ —	\$ —	—	\$ —
<b>Purchased Put Options—Purchase United States Dollar</b>						
Euro . . . . .	\$ —	—	\$ —	\$ 7.51	1.074	\$ 0.10
<b>Sold Call Options—Sell United States Dollar</b>						
Euro . . . . .	\$ 1.03	1.208	\$ (0.03)	\$ 8.45	1.576	\$ (0.02)
<b>Sold Put Options—Sell United States Dollar</b>						
Euro . . . . .	\$ —	—	\$ —	\$ 3.07	1.054	\$ (0.08)
Swiss Franc . . . . .	3.69	1.549	—	1.00	1.360	(0.01)
<b>Other Miscellaneous Functional Currencies</b>						
<b>Forward Contracts—Purchase United States Dollar</b>						
British Pound . . . . .	\$ 2.67	1.780	\$ (0.06)	\$ 16.09	1.635	\$ (0.04)
Canadian Dollar . . . . .	11.15	1.315	0.09	14.37	1.537	(0.12)
Miscellaneous other currencies . . . . .	7.41	—	0.21	9.29	—	0.03
<b>Forward Contracts—Purchase Euro</b>						
British Pound . . . . .	\$ 8.85	1.422	\$ (0.23)	\$ 20.57	1.527	\$ (0.05)
Miscellaneous other currencies . . . . .	3.83	—	0.02	6.28	—	0.01
<b>Forward Contracts—Sell United States Dollar</b>						
Canadian Dollar . . . . .	\$ 2.40	1.325	\$ —	\$ —	—	\$ —

We are exposed to changes in interest rates primarily as a result of our short- and long-term debt used to maintain liquidity and to finance working capital, capital expenditures and business expansion. Interest rate risk is also present in the forward foreign currency contracts hedging intercompany and third-party loans. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to minimize overall borrowing costs. To achieve our objective, we use a combination of fixed and variable rate debt. The nature and amount of our long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. As of January 31, 2004 and January 31, 2003, approximately 80% and 63%, respectively, of the outstanding debt had

fixed interest rates (through the terms of such debt or through interest rate swap agreements). We finance working capital needs through bank loans, convertible subordinated debt and our accounts receivable securitization program. Interest rate swaps are used to hedge the interest rate risks of the underlying debt obligations.

The following table provides information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. Fair value for these instruments was determined based on third-party valuations. All amounts are stated in United States dollar equivalents.

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

(Continued)

Debt and Interest Rate Contracts as of January 31, 2004 Principal Notional Amount by Expected Maturity	January 31,					Total	Fair Market Value
	2005	2006	2007	2008	Thereafter		January 31, 2004
<i>(Dollar amounts in millions)</i>							
<b>United States Dollar Functional Currency</b>							
<b>Liabilities</b>							
U.S. dollar denominated debt—Revolving Credit							
Variable rate debt . . . . .	\$ 8.20	—	—	—	—	\$ 8.20	\$ 8.20
Average interest rate . . . . .	1.73%	—	—	—	—		
U.S. dollar denominated long-term debt (including current portion)							
Fixed rate debt . . . . .	\$ 7.79	—	—	—	\$290.00	\$297.80	\$316.56
Average interest rate . . . . .	10.25%	—	—	—	2.00%		
<b>Euro Functional Currency</b>							
<b>Liabilities</b>							
Euro denominated debt—Revolving Credit							
Variable rate debt . . . . .	\$55.20	—	—	—	—	\$ 55.20	\$ 55.20
Average interest rate . . . . .	2.67%	—	—	—	—		
Euro denominated long-term debt (including current portion)							
Fixed rate debt . . . . .	\$ 1.47	\$1.55	\$1.64	\$1.74	\$ 13.00	\$ 19.40	\$ 19.40
Average interest rate . . . . .	5.94%	5.94%	5.94%	5.94%	5.94%		
<b>Other Miscellaneous Functional Currencies</b>							
<b>Liabilities</b>							
Other foreign currencies denominated debt—Revolving Credit							
Variable rate debt . . . . .	\$16.80	—	—	—	—	\$ 16.80	\$ 16.80
Average interest rate . . . . .	4.56%	—	—	—	—		



Debt and Interest Rate Contracts as of January 31, 2003 Principal Notional Amount by Expected Maturity	January 31,					Total	Fair Market Value January 31, 2003
	2004	2005	2006	2007	Thereafter		
<i>(Dollar amounts in millions)</i>							
<b>United States Dollar Functional Currency</b>							
<b>Liabilities</b>							
U.S. dollar denominated debt—Revolving Credit							
Variable rate debt . . . . .	\$ 173.56	—	—	—	—	\$ 173.56	\$ 173.56
Average interest rate . . . . .	2.36%	—	—	—	—		
U.S. dollar denominated long-term debt (including current portion)							
Fixed rate debt . . . . .	\$ 0.21	\$ 7.79	—	—	\$ 290.00	\$ 298.00	\$ 268.90
Average interest rate . . . . .	10.25%	10.25%	—	—	2.00%		
<b>Euro Functional Currency</b>							
<b>Liabilities</b>							
Euro denominated debt—Revolving Credit							
Variable rate debt . . . . .	\$ 12.45	—	—	—	—	\$ 12.45	\$ 12.45
Average interest rate . . . . .	3.49%	—	—	—	—		
Euro denominated long-term debt (including current portion)							
Fixed rate debt . . . . .	\$ 1.19	\$ 1.26	\$ 1.34	\$ 1.42	\$ 12.69	\$ 17.90	\$ 17.90
Average interest rate . . . . .	5.92%	5.92%	5.92%	5.92%	5.92%		
<b>Purchased Interest Rate Caps</b>							
Euro							
Notional amount . . . . .	\$ 9.32	—	—	—	—	\$ 9.32	\$ —
Average strike rate . . . . .	6.00%	—	—	—	—		
Forward rate . . . . .	2.70%	—	—	—	—		
<b>Sold Interest Rate Floors</b>							
Euro							
Notional amount . . . . .	\$ 9.32	—	—	—	—	\$ 9.32	\$ (0.02)
Average strike rate . . . . .	4.00%	—	—	—	—		
Forward rate . . . . .	2.70%	—	—	—	—		
<b>Other Miscellaneous Functional Currencies</b>							
<b>Liabilities</b>							
Other foreign currencies denominated debt—Revolving Credit							
Variable rate debt . . . . .	\$ 2.30	—	—	—	—	\$ 2.30	\$ 2.30
Average interest rate . . . . .	9.53%	—	—	—	—		
<b>Purchased Interest Rate Caps</b>							
Swiss Franc							
Notional amount . . . . .	\$ 7.31	—	—	—	—	\$ 7.31	\$ —
Average strike rate . . . . .	4.50%	—	—	—	—		
Forward rate . . . . .	0.60%	—	—	—	—		
<b>Sold Interest Rate Floors</b>							
Swiss Franc							
Notional amount . . . . .	\$ 7.31	—	—	—	—	\$ 7.31	\$ (0.13)
Average strike rate . . . . .	3.40%	—	—	—	—		
Forward rate . . . . .	0.60%	—	—	—	—		

Tech Data Corporation & Subsidiaries  
**Report of Management**

To Our Shareholders:

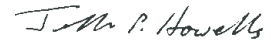
The management of Tech Data Corporation is responsible for the preparation, integrity and objectivity of the consolidated financial statements and related financial information contained in Tech Data's Annual Report on Form 10-K. The consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States 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 an effective 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 involve, 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



Jeffery P. Howells  
Executive Vice President  
and Chief Financial Officer

March 4, 2004

## Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of Tech Data Corporation and subsidiaries as of January 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2004. 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position

of Tech Data Corporation and subsidiaries at January 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 2004, in conformity with accounting principles generally accepted in the United States.

As described in Note 1 to the consolidated financial statements, the Company adopted Emerging Issues Task Force No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," effective January 1, 2003. In addition, as described in Note 4 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective February 1, 2002.

*Ernst & Young LLP*

Tampa, Florida  
March 4, 2004

Tech Data Corporation & Subsidiaries  
**Consolidated Balance Sheet**

	January 31,	
	2004	2003
	<i>(In thousands, except share amounts)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 108,801	\$ 157,191
Accounts receivable, less allowance of \$74,556 and \$60,307 . . . . .	2,111,384	1,714,902
Inventories . . . . .	1,330,081	997,875
Prepaid and other assets . . . . .	130,038	108,150
Total current assets . . . . .	3,680,304	2,978,118
Property and equipment, net . . . . .	157,054	136,689
Goodwill . . . . .	141,238	2,966
Other assets, net . . . . .	189,290	130,245
Total assets . . . . .	\$4,167,886	\$3,248,018
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Revolving credit loans . . . . .	\$ 80,221	\$ 188,309
Accounts payable . . . . .	1,646,125	1,073,357
Accrued expenses . . . . .	428,526	317,169
Total current liabilities . . . . .	2,154,872	1,578,835
Long-term debt . . . . .	307,934	314,498
Other long-term liabilities . . . . .	46,591	16,155
Total liabilities . . . . .	2,509,397	1,909,488
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, par value \$.02; 226,500 shares authorized; none issued and outstanding; liquidation preference \$.20 per share . . . . .	—	—
Common stock, par value \$.0015; 200,000,000 shares authorized; 57,717,407 and 56,483,572 issued and outstanding . . . . .	87	85
Additional paid-in capital . . . . .	686,092	652,928
Retained earnings . . . . .	749,337	645,190
Accumulated other comprehensive income . . . . .	222,973	40,327
Total shareholders' equity . . . . .	1,658,489	1,338,530
Total liabilities and shareholders' equity . . . . .	\$4,167,886	\$3,248,018

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

## Consolidated Statement of Income

	Year ended January 31,		
	2004	2003	2002
	<i>(In thousands, except per share amounts)</i>		
Net sales . . . . .	\$17,406,340	\$15,738,945	\$17,197,511
Cost of products sold . . . . .	16,424,694	14,907,187	16,269,481
Gross profit . . . . .	981,646	831,758	928,030
Selling, general and administrative expenses . . . . .	812,965	612,728	677,914
Special charges . . . . .	3,065	328,872	27,000
Operating income (loss) . . . . .	165,616	(109,842)	223,116
Loss on disposition of subsidiaries, net . . . . .	—	5,745	—
Interest expense . . . . .	23,217	35,433	66,733
Interest income . . . . .	(6,651)	(11,388)	(11,314)
Net foreign currency exchange gain . . . . .	(1,893)	(6,942)	(143)
Income (loss) before income taxes . . . . .	150,943	(132,690)	167,840
Provision for income taxes . . . . .	46,796	67,128	57,063
Net income (loss) . . . . .	\$ 104,147	\$ (199,818)	\$ 110,777
Net income (loss) per common share:			
Basic . . . . .	\$ 1.83	\$ (3.55)	\$ 2.04
Diluted . . . . .	\$ 1.81	\$ (3.55)	\$ 1.98
Weighted average common shares outstanding:			
Basic . . . . .	56,838	56,256	54,407
Diluted . . . . .	57,501	56,256	60,963

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

## Consolidated Statement of Changes in Shareholders' Equity

	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) <sup>(a)</sup>	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
<i>(In thousands)</i>								
Balance—January 31, 2001 . . . . .	227	\$ 5	53,796	\$81	\$575,223	\$ 734,231	\$(114,226)	\$1,195,314
Issuance of common stock for benefit plans and stock options exercised including related tax benefit of \$7,022 . . . . .	—	—	1,465	2	43,452	—	—	43,454
Exchange of preferred to common shares (Note 9) . . . . .	(227)	(5)	193	—	5	—	—	—
Comprehensive income (loss) . . . . .	—	—	—	—	—	110,777	(89,612)	21,165
Balance—January 31, 2002 . . . . .	—	—	55,454	83	618,680	845,008	(203,838)	1,259,933
Issuance of common stock for benefit plans and stock options exercised including related tax benefit of \$5,663 . . . . .	—	—	1,030	2	34,248	—	—	34,250
Comprehensive income (loss) . . . . .	—	—	—	—	—	(199,818)	244,165	44,347
Balance—January 31, 2003 . . . . .	—	—	56,484	85	652,928	645,190	40,327	1,338,530
Issuance of common stock for benefit plans and stock options exercised including related tax benefit of \$4,343 . . . . .	—	—	1,233	2	33,164	—	—	33,166
Comprehensive income . . . . .	—	—	—	—	—	104,147	182,646	286,793
Balance—January 31, 2004 . . . . .	—	\$—	57,717	\$87	\$686,092	\$ 749,337	\$ 222,973	\$1,658,489

(a) The Company's other comprehensive income (loss) is comprised exclusively of changes in the Company's cumulative foreign currency translation adjustment account.

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

## Consolidated Statement of Cash Flows

	Year ended January 31,		
	2004	2003	2002
	<i>(In thousands)</i>		
Cash flows from operating activities:			
Cash received from customers . . . . .	\$ 17,390,674	\$ 15,897,728	\$ 17,511,511
Cash paid to suppliers and employees . . . . .	(17,027,162)	(15,685,447)	(16,406,265)
Interest paid . . . . .	(17,045)	(25,421)	(55,871)
Income taxes paid . . . . .	(43,233)	(61,811)	(72,745)
Net cash provided by operating activities . . . . .	<u>303,234</u>	<u>125,049</u>	<u>976,630</u>
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired . . . . .	(203,010)	(1,125)	(183)
Disposition of subsidiaries, net of cash sold . . . . .	—	(2,289)	—
Proceeds from sale of property and equipment . . . . .	4,484	—	—
Expenditures for property and equipment . . . . .	(31,278)	(26,276)	(28,466)
Software development costs . . . . .	(21,714)	(32,862)	(20,719)
Net cash used in investing activities . . . . .	<u>(251,518)</u>	<u>(62,552)</u>	<u>(49,368)</u>
Cash flows from financing activities:			
Proceeds from the issuance of common stock, net of related tax benefit . . . . .	28,823	28,587	36,432
Net borrowings (repayments) on revolving credit loans . . . . .	(138,039)	91,306	(1,118,167)
Proceeds from issuance of long-term debt, net of expense . . . . .	—	—	284,200
Principal payments on long-term debt . . . . .	(1,492)	(301,227)	(634)
Net cash used in financing activities . . . . .	<u>(110,708)</u>	<u>(181,334)</u>	<u>(798,169)</u>
Effect of exchange rate changes on cash . . . . .	10,602	18,101	(10,091)
Net (decrease) increase in cash and cash equivalents . . . . .	<u>(48,390)</u>	<u>(100,736)</u>	<u>119,002</u>
Cash and cash equivalents at beginning of year . . . . .	157,191	257,927	138,925
Cash and cash equivalents at end of year . . . . .	<u>\$ 108,801</u>	<u>\$ 157,191</u>	<u>\$ 257,927</u>
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss) . . . . .	\$ 104,147	\$ (199,818)	\$ 110,777
Adjustments to reconcile net income (loss) to net cash provided			
by operating activities:			
Depreciation and amortization . . . . .	55,084	49,849	63,488
Provision for losses on accounts receivable . . . . .	29,214	31,243	40,764
Non-cash special charges . . . . .	—	328,872	27,000
Loss on disposition of subsidiaries . . . . .	—	5,745	—
Deferred income taxes . . . . .	7,369	17,453	(11,848)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable . . . . .	(15,699)	159,256	314,000
Inventories . . . . .	(140,203)	26,881	702,219
Prepaid and other assets . . . . .	14,713	(18,256)	(6,248)
Accounts payable . . . . .	300,350	(239,059)	(264,722)
Accrued expenses . . . . .	(51,741)	(37,117)	1,200
Total adjustments . . . . .	<u>199,087</u>	<u>324,867</u>	<u>865,853</u>
Net cash provided by operating activities . . . . .	<u>\$ 303,234</u>	<u>\$ 125,049</u>	<u>\$ 976,630</u>

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

## Notes to Consolidated Financial Statements

### Note 1. Summary of Significant Accounting Policies

#### Description of Business

Tech Data Corporation ("Tech Data" or the "Company") is a leading provider of information technology ("IT") products, logistics management and other value-added services. The Company distributes microcomputer hardware and software products to value-added resellers, corporate resellers, retailers, direct marketers and Internet resellers. The Company and its subsidiaries distribute to approximately 80 countries and serve resellers in the United States, Europe, Canada, Latin America, the Caribbean, and the Middle East.

#### Principles of Consolidation

The consolidated financial statements include the accounts of Tech Data and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company operates on a fiscal year that ends on January 31.

#### Method of Accounting

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States. 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

Revenue is recognized once four criteria are met: (1) the Company must have persuasive evidence that an arrangement exists; (2) delivery must occur, which happens at the point of shipment (this includes the transfer of both title and risk of loss, provided that no significant obligations remain); (3) the price must be fixed and determinable; and (4) collectibility must be reasonably assured. The Company allows its customers to return product for exchange or credit subject to certain limitations. A provision for estimated losses on such returns is recorded at the time of sale based upon historical experience.

Service revenue associated with configuration services or build to order computers is recognized when the work is complete and all obligations are substantially met. Service revenues have represented less than 10% of total net sales for fiscal 2004, 2003, and 2002. Shipping revenue is included in net sales and related costs are included in the cost of products sold.

#### Accounts Receivable

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. In estimating the required allowance, we take into consideration the overall quality and aging of the receivable portfolio, the existence of credit insurance and specifically identified customer risks. If actual customer performance were to deteriorate to an extent not expected by us, additional allowances may be required which could have an adverse effect on our financial results.

#### Inventories

Inventories 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 straight-line method as follows:

	Years
Buildings and improvements . . . . .	15–39
Leasehold improvements . . . . .	3–5
Furniture, fixtures and equipment . . . . .	3–10

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 the carrying amount of the asset may not be recoverable. 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.

#### Investments in Equity Securities

The Company's investment in equity securities (\$2.4 million at January 31, 2004 and 2003) is monitored for impairment on a periodic basis. The holding is inherently risky because this company is a privately-held emerging technology entity whose products or technologies are still in the early stages of development, and which may never become successful. Fair values for investments in privately-held companies are estimated based upon one or more of the following: pricing models using historical and forecasted financial information and current market rates, liquidation values, the values of recent rounds of financing, or quoted market prices of comparable public companies. In order to determine whether a decline in value is other-than-temporary, we evaluate, among other factors: the duration and extent to which the fair value has been less than the carrying value; the financial condition of and business outlook for the company, including key operational and cash flow metrics, current market conditions and future trends in the company's industry and the company's relative competitive position within the industry; and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

#### Goodwill

Prior to fiscal 2003, goodwill had been amortized on a straight-line basis over 15 to 40 years. The adoption of Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 142, "Goodwill and Other Intangible Assets," which became effective for the Company February 1, 2002, revised the standards of



accounting for goodwill, by replacing the amortization of these assets with the requirement that they are reviewed annually for impairment, or more frequently if impairment indicators arise. This testing included the determination of each reporting unit's fair value using market multiples and discounted cash flows modeling. During the fourth quarters of fiscal 2004 and 2002, the Company performed its annual test of goodwill and determined there was no impairment. During the fourth quarter of fiscal 2003, when the Company performed its annual test, it was determined that due to the Company's reduced earnings and cash flow forecast, primarily due to the prolonged downturn in the economy, uncertain demand, and competitive industry conditions, a goodwill impairment charge was necessary. The \$328.9 million non-cash charge was recorded in the fourth quarter of fiscal 2003.

#### **Intangibles**

Included within other assets at January 31, 2004 are certain intangible assets including capitalized software costs, the allocation of a portion of the purchase price of Computer 2000 AG ("Computer 2000") to software used within the Computer 2000 entities and the value of the customer base acquired, and the allocation of a portion of the purchase price of Azlan Group PLC ("Azlan"), as further discussed in Note 2, to the value of the customer base acquired and the Azlan trademark. Such capitalized costs and intangibles are being amortized over three to ten years resulting in amortization expense of \$17.7 million, \$10.5 million, and \$11.6 million in 2004, 2003, and 2002, respectively.

The Company's capitalized software has been obtained or developed for internal use only. Development and acquisition costs are capitalized for computer software only when management authorizes and commits to funding a computer software project through the approval of a capital expenditure requisition, and the software project is either for the development of new software, to increase the life of existing software or to add significantly to the functionality of existing software. Once these requirements have been met, capitalization would begin at the point that conceptual formulation, evaluation, design, and testing of possible software project alternatives have been completed. Capitalization ceases when the software project is substantially complete and ready for its intended use.

Costs of computer software developed or obtained for internal use that are capitalized include external direct costs of materials and services consumed in developing or obtaining internal-use computer software (this includes the cost of the software package and external consulting fees and related expenses incurred for software application development and/or implementation) and payroll and payroll-related costs for the Company's IT programmers performing software coding and testing activities (including development of data conversion programs) directly associated with the internal-use computer software project. Prepaid maintenance fees associated with a software application are accounted for separately from the related software and amortized over the life of the maintenance agreement. General, administrative, overhead, training, non-development data conversion processes, and maintenance costs, as well as the costs associated with the preliminary project and post-implementation stages are expensed as incurred.

The Company's accounting policy is to amortize capitalized software costs on a straight-line basis over periods ranging from three to ten years, depending upon the nature of the software, the stability of the hardware platform on which the software is installed, its fit in our overall strategy, and our experience with similar software. It is the Company's policy to amortize personal computer-related software, such as spreadsheet and word processing applications, over three years, which reflects the rapid changes in personal computer software. Mainframe software licenses are amortized over five years, which is in line with the longer economic life of mainframe systems compared to personal computer systems. Finally, strategic applications such as customer relationship management and enterprise-wide systems are amortized over seven to ten years based on their strategic fit and the Company's historical experience with such applications.

#### **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 services with regard to products integrated for its customers. In several countries where the Company operates, the Company is responsible for defective product as a matter of law. The time period required by law in certain countries exceeds the warranty period provided by the manufacturer. To date, the Company has not incurred any significant costs for defective products under these legal requirements. When sold and shipped, revenue for the configuration and assembly fees is recognized. A provision for estimated warranty costs is recorded at the time of sale and periodically adjusted to reflect actual experience. Fees charged for products configured by the Company represented less than 10% of net sales for fiscal 2004, 2003, and 2002.

#### **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.

#### **Concentration of Credit Risk**

The Company sells its products to a large base of value-added resellers, direct marketers, retailers, corporate resellers, and Internet resellers throughout the United States, Europe, Canada, Latin America, the Caribbean, and the Middle East. The Company 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 customers against possible loss. The Company makes provisions for estimated credit losses at the time of sale.

No single customer accounted for more than five percent of the Company's net sales during fiscal 2004, 2003, or 2002. With the

## Notes to Consolidated Financial Statements

(Continued)

acquisition of Compaq Computer Corporation ("Compaq") by Hewlett-Packard Company ("HP") in May 2002, sales of products sourced from the combined HP/Compaq entity accounted for 32%, 33%, and 38% of net sales in fiscal 2004, 2003, and 2002, respectively. Microsoft software accounted for 10% of net sales in fiscal 2003. There were no other vendors that accounted for greater than 10% of net sales in fiscal 2004, 2003, and 2002.

**Foreign Currency Translation**

Income and expense accounts of foreign operations are translated at the weighted average exchange rates during the year. Assets, including goodwill, and liabilities of foreign operations that operate in a local currency environment are translated to U.S. dollars 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 (in the cumulative foreign currency translation adjustment account or "CTA"). The Company's balance of deferred income taxes in the CTA account was \$28.6 million and \$23.0 million for the fiscal years ended January 31, 2004 and 2003, respectively.

**Derivative Financial Instruments**

The Company operates internationally with logistics 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 90 days or less. The Company does not use derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

Derivative financial instruments are marked-to-market each period with gains and losses on these contracts recorded in income in the period in which their value changes. Gains and losses resulting from effective accounting 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 to be bought or sold at maturity. The notional amount of interest rate swaps is the underlying principal 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 similar offsetting contracts with similar remaining maturities based on quoted market prices.

The Company's derivative financial instruments outstanding at January 31, 2004 and 2003 are as follows:

	January 31, 2004		January 31, 2003	
	Notional Amounts	Estimated Fair Value	Notional Amounts	Estimated Fair Value
(In thousands)				
Foreign exchange forward contracts . . . . .	\$799,522	\$(1,416)	\$442,592	\$(239)
Foreign currency options . . . . .	5,809	(11)	12,662	(4)
Interest rate swaps . . . . .	—	—	16,626	(151)

**Fair Value of Financial Instruments**

The carrying amounts of cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short maturity of these items. 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 estimated fair value of the convertible subordinated notes is approximately \$308.8 million and \$260.9 million at January 31, 2004 and 2003, respectively, based upon available market information.

**Comprehensive Income**

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, and is comprised of net income and "other comprehensive income." The Company's other comprehensive income is comprised exclusively of changes in the Company's CTA account, including income taxes attributable to those changes.

Comprehensive income, net of taxes, for the years ended January 31, 2004, 2003, and 2002 is as follows:

	Year ended January 31,		
	2004	2003	2002
(In thousands)			
Comprehensive income:			
Net income (loss) . . . . .	\$104,147	\$(199,818)	\$110,777
Change in CTA <sup>(1)</sup> . . . . .	182,646	244,165	(89,612)
Total . . . . .	\$286,793	\$ 44,347	\$ 21,165

(1) Net of income taxes of \$5.6 million and \$2.9 million for the fiscal years ended January 31, 2004 and 2002, respectively. There was no income tax effect in fiscal 2003.

### Stock-Based Compensation

At January 31, 2004, the Company had four stock-based employee compensation plans, which are described more fully in Note 8. The Company has adopted the disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 allows for continued use of recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for those plans. The Company applies the recognition and measurement principles of APB Opinion No. 25, and related interpretations in accounting for its plans. No stock-based employee compensation expense is reflected in net income as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions to stock-based employee compensation. Such disclosure is not necessarily indicative of the fair value of stock options that could be granted by the Company in future fiscal years or of the value of all options currently outstanding.

	Year ended January 31,		
	2004	2003	2002
	<i>(In thousands, except per share amounts)</i>		
Net income (loss), as reported . . . . .	\$104,147	\$(199,818)	\$110,777
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects . . .	(21,231)	(28,077)	(20,798)
Pro forma net income (loss) . . .	\$ 82,916	\$(227,895)	\$ 89,979
Net income (loss) per share:			
Basic—as reported . . . . .	\$ 1.83	\$ (3.55)	\$ 2.04
Basic—pro forma . . . . .	\$ 1.46	\$ (4.05)	\$ 1.65
Diluted—as reported . . . . .	\$ 1.81	\$ (3.55)	\$ 1.98
Diluted—pro forma . . . . .	\$ 1.44	\$ (4.05)	\$ 1.64

### Earnings Per Share ("EPS")

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, 2004			Year ended January 31, 2003			Year ended January 31, 2002		
	Net Income	Weighted Average Shares	Per Share Amount	Net Loss	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
	<i>(In thousands, except per share amounts)</i>								
Net income (loss) per common share—Basic . . . . .	\$104,147	56,838	\$1.83	\$(199,818)	56,256	\$(3.55)	\$110,777	54,407	\$2.04
Effect of dilutive securities:									
Stock options . . . . .		663			—			1,223	
5% convertible subordinated notes. . . . .		—			—		9,900	5,333	
Net income (loss) per common share—Diluted . . . . .	\$104,147	57,501	\$1.81	\$(199,818)	56,256	\$(3.55)	\$120,677	60,963	\$1.98

## Notes to Consolidated Financial Statements

(Continued)

At January 31, 2004, 2003, and 2002, there were 2,445,046, 2,529,590, and 83,045 shares, respectively, excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

In addition, the dilutive impact of the \$290.0 million of convertible subordinated debentures, due 2021, is excluded from the diluted earnings per share calculations due to the conditions for the contingent conversion feature not being met. The contingent conversion feature requires the market price of the common stock to exceed a specified percentage, beginning at 120% and declining ½% each year until it reaches 110% at maturity, of the conversion price per share of common stock. Holders may convert debentures into 16.7997 shares per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$59.53 per share.

### **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 \$109.1 million and \$63.5 million at January 31, 2004 and 2003, 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.

### **Non-Cash Transactions**

The Company entered into a capital lease for a logistics center in Germany, which totaled \$3.8 million at January 31, 2002.

### **Recent Accounting Pronouncements**

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." For variable interest entities ("VIEs") created before February 1, 2003, the recognition and measurement provisions of FIN No. 46 were effective for the Company no later than the beginning of the third quarter of fiscal 2004, while for VIEs created after January 31, 2003, the recognition and measurement provisions of FIN No. 46 were effective immediately. In general, a VIE is any legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or is entitled to receive a majority of the VIE's residual returns, or both. As further explained within Note 10, the Company has determined that the third-party lessor of its synthetic lease facility does not meet the criteria of a VIE and, therefore, is not subject to the consolidation provisions of FIN No. 46. The adoption of FIN No. 46 did not have a significant impact on the Company's consolidated financial position or results of operations during the period.

In January 2003, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." EITF Issue No. 02-16 required that, under certain circumstances, consideration received from vendors be treated as a reduction of cost of goods sold and not as a reduction of selling, general and administrative expenses. The guidance was effective for vendor arrangements entered into or modified subsequent to December 31, 2002, and required that recognition of certain consideration received from vendors be deferred until the time the inventory to which it relates is sold. As a result, approximately \$51.6 million was reclassified from selling, general and administrative expenses with \$45.3 million of this amount being recorded as a reduction of cost of goods sold and the remaining \$6.3 million being deferred pending the sale of the related inventory. The guidance was applicable to virtually all of the Company's vendor arrangements by the end of fiscal 2004. This guidance does not require prior periods to be adjusted.

In December 2002, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 requires prominent annual and interim disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation. The disclosure requirements of SFAS No. 148 are effective for fiscal years ended after December 15, 2002, and therefore, are included in the financial statements presented herein. While SFAS No. 148 allows for a voluntary change to the fair value based method of accounting for stock-based employee compensation, the Company continues to use the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations for those plans. However, the Company is currently analyzing alternative stock-based employee compensation programs, its accounting policies for these programs, and their impact, if any, upon the Company's consolidated financial position and results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts. The provisions of SFAS No. 149 were effective, on a prospective basis, for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a significant impact on the Company's consolidated financial position or results of operations during the period.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" which was effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company's third quarter of fiscal 2004. For financial instruments created before the issuance of SFAS No. 150 and

still existing at August 1, 2003, the effect of any change will be reported as a cumulative effect of a change in accounting principle. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS No. 150 did not have a significant impact on the Company's consolidated financial position or results of operations during the period.

#### Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

## Note 2. Acquisitions and Dispositions

### Acquisitions

Effective March 31, 2003, Tech Data acquired all of the outstanding stock of Azlan Group PLC ("Azlan"), a European distributor of networking and communications products and provider of training and other value-added services. Shareholders of Azlan received 125 pence per ordinary share, resulting in total cash consideration of approximately 144.7 million pounds sterling (\$224.4 million), which the Company funded from its existing credit facilities. The Company subsequently incurred acquisition-related expenses of approximately \$2.6 million for a total purchase price of \$227.0 million.

The Azlan acquisition strengthened Tech Data's position in Europe with respect to networking products and value-added services and was accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations." In accordance with SFAS No. 141, the net assets and results of operations of Azlan have been included in Tech Data's consolidated financial statements

since the date of acquisition. The acquisition cost has been allocated to intangible assets, goodwill and net tangible assets based on management's estimates in conjunction with independent appraisals. Based on this analysis and exchange rates at January 31, 2004, the Company allocated approximately \$18.6 million and \$7.5 million to the value of Azlan's customer list and trademark, respectively, and \$132.6 million to goodwill, representing the remainder of the excess of the purchase price over the net tangible assets acquired (see Note 4 for a roll-forward of goodwill). The Company is amortizing the customer list and trademark over seven and five years, respectively.

During fiscal 2004, the Company approved several integration and restructuring plans related to the Azlan acquisition and certain costs associated with implementing these plans have been considered as an adjustment to the net tangible assets acquired and, accordingly, included in the reported amount of goodwill above. Additional adjustments to goodwill may occur during fiscal 2005 as the Company completes the implementation of these integration plans. During the course of fiscal 2004, the Company began implementation of these plans and incurred \$7.9 million of integration and restructuring costs, primarily representing employee termination benefits. As of January 31, 2004, the Company had outstanding liabilities for additional integration and restructuring costs associated with these plans as follows:

	<i>January 31, 2004</i>
	<i>(In thousands)</i>
Employee termination benefits . . . . .	\$ 6,600
Facility costs . . . . .	14,600
Total . . . . .	<u>\$21,200</u>

The following unaudited pro forma financial information presents results as if the acquisition had occurred at the beginning of the first quarter of fiscal 2003:

	Quarter ended January 31,		Year ended January 31,	
	2004	2003	2004	2003
	<i>(In thousands, except per share amounts)</i>			
Pro forma net sales . . . . .	\$4,918,729	\$4,254,770	\$17,579,086	\$16,650,161
Pro forma net income . . . . .	\$ 38,918	\$ (302,581)	\$ 105,603	\$ (194,939)
Net income (loss) per common share:				
Basic—pro forma . . . . .	\$ .68	\$ (5.36)	\$ 1.86	\$ (3.47)
Diluted—pro forma . . . . .	\$ .67	\$ (5.36)	\$ 1.84	\$ (3.47)

This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the acquisition taken place at the beginning of fiscal 2003.

### Dispositions

Tech Data sold its operations in the Baltic Region (Estonia, Latvia and Lithuania) at the end of the fourth quarter of fiscal 2004 for their approximate book value of \$1.6 million.

The Company closed its operations in Norway and Hungary during the first half of fiscal 2003. Operating losses incurred during the wind-down of these operations totaled less than \$3.0 million, which has been reflected in operating income during fiscal 2003.

In addition, during the fourth quarter of fiscal 2003, the Company sold its operations in Argentina to local management and liquidated one of its European financing subsidiaries. With respect to the Argentina transaction, Tech Data recorded a charge of approximately \$2.4 million on the sale, in addition to the realization of approximately \$14.5 million in foreign currency exchange

## Notes to Consolidated Financial Statements

(Continued)

losses previously recorded in shareholders' equity as accumulated other comprehensive income (loss). In connection with the liquidation of the European financing subsidiary, the Company repatriated approximately \$70.0 million of capital, which resulted in the realization of approximately \$11.2 million in foreign currency exchange gains previously recorded in shareholders' equity as accumulated other comprehensive income (loss). The net effect of these transactions resulted in a total pre-tax loss of approximately \$5.7 million, recorded within Loss on Disposition of Subsidiaries during fiscal 2003.

## Note 3. Property and Equipment

	January 31,	
	2004	2003
	<i>(In thousands)</i>	
Land . . . . .	\$ 8,512	\$ 8,875
Buildings and leasehold improvements . . . . .	97,045	83,128
Furniture, fixtures and equipment . . . . .	320,443	278,936
	<u>426,000</u>	<u>370,939</u>
Less accumulated depreciation . . . . .	<u>(268,946)</u>	<u>(234,250)</u>
	<u>\$ 157,054</u>	<u>\$ 136,689</u>

Property and equipment includes approximately \$18.1 million and \$17.1 million of assets under capital leases at January 31, 2004 and 2003, respectively (see Note 6—Long-Term Debt).

## Note 4. Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 revised the standards of accounting for goodwill and indefinite-lived intangible assets by replacing the amortization of these assets with the requirement that they are reviewed annually for possible impairment, or more frequently if impairment indicators arise. This testing included the determination of each reporting unit's fair value using market multiples and discounted cash flows modeling. Separable intangible assets that have finite lives will continue to be amortized over their estimated useful lives. Tech Data adopted SFAS No. 142 effective February 1, 2002, and during the first quarter of the fiscal year ended January 31, 2003, finalized the required transitional impairment tests of goodwill and indefinite-lived intangible assets. Based on the results of the transitional impairment tests, no adjustments for

impairment were necessary. During the fourth quarter of fiscal 2003 when the Company performed its annual test, it was determined that due to the Company's reduced earnings and cash flow forecast, primarily due to the prolonged downturn in the economy, uncertain demand, and competitive industry conditions, a goodwill impairment charge was necessary. The \$328.9 million non-cash charge was recorded in the fourth quarter of fiscal 2003. During the fourth quarter of fiscal 2004, the Company performed its annual test of goodwill and determined there was no impairment.

The following table reflects the pro forma results of operations of the Company, giving effect to SFAS No. 142 as if it were adopted on February 1, 2001:

	Year ended January 31,		
	2004	2003	2002
	<i>(In thousands, except per share data)</i>		
Net income (loss):			
Reported net income (loss) . . . . .	\$ 104,147	\$(199,818)	\$ 110,777
Add: Goodwill amortization, net of tax . . . . .	—	—	8,481
Pro forma net income (loss) . . . . .	<u>\$ 104,147</u>	<u>\$(199,818)</u>	<u>\$ 119,258</u>
Basic net income (loss) per share:			
As reported . . . . .	\$ 1.83	\$(3.55)	\$ 2.04
Pro forma . . . . .	<u>\$ 1.83</u>	<u>\$(3.55)</u>	<u>\$ 2.19</u>
Diluted net income (loss) per share:			
As reported . . . . .	\$ 1.81	\$(3.55)	\$ 1.98
Pro forma . . . . .	<u>\$ 1.81</u>	<u>\$(3.55)</u>	<u>\$ 2.12</u>

The changes in the carrying amount of goodwill for the year ended January 31, 2004, are as follows:

	Americas	Europe	Total
	<i>(In thousands)</i>		
Balance as of January 31, 2003 . . . . .	\$ 2,966	\$ —	\$ 2,966
Goodwill acquired during the year . . . . .	—	124,127	124,127
Other <sup>(1)</sup> . . . . .	—	14,145	14,145
Balance as of January 31, 2004 . . . . .	<u>\$ 2,966</u>	<u>\$ 138,272</u>	<u>\$ 141,238</u>

(1) "Other" primarily relates to the effect of fluctuations in foreign currencies.

Included within Other Assets are intangible assets as follows:

	January 31, 2004			January 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
<i>(In thousands)</i>						
Amortized intangible assets:						
Capitalized software and development costs . . . . .	\$160,501	\$80,910	\$ 79,591	\$123,742	\$62,931	\$60,811
Customer list . . . . .	30,040	8,553	21,487	9,877	4,474	5,403
Trademark . . . . .	7,493	1,262	6,231	—	—	—
Other intangible assets . . . . .	663	516	147	680	428	252
	<b>\$198,697</b>	<b>\$91,241</b>	<b>\$107,456</b>	<b>\$134,299</b>	<b>\$67,833</b>	<b>\$66,466</b>

Amortization expense for the years ended January 31, 2004 and 2003 amounted to \$17.7 million and \$10.5 million, respectively. Estimated amortization expense of currently capitalized costs for succeeding fiscal years is as follows (in thousands):

Fiscal year:	
2005 . . . . .	\$18,900
2006 . . . . .	16,700
2007 . . . . .	14,500
2008 . . . . .	13,000
2009 . . . . .	9,800

In addition, the Company capitalized intangible assets related solely to software and development expenditures of \$21.7 million and \$32.9 million for the years ended January 31, 2004 and 2003, respectively, which includes \$0.8 million and \$0.3 million of capitalized interest and a weighted average amortization period of approximately eight and nine years for fiscal 2004 and 2003, respectively.

The weighted average amortization period for all intangible assets capitalized during fiscal 2004 and 2003 approximated seven and nine years, respectively.

#### Note 5. Revolving Credit Loans

	January 31,	
	2004	2003
<i>(In thousands)</i>		
Receivables Securitization Program, average interest rate of 1.73% at January 31, 2004, expiring August 2004 . . . . .	\$ 8,188	\$150,000
Multi-currency Revolving Credit Facility, average interest rate of 2.60% at January 31, 2004, expiring May 2006 . . . . .	—	23,558
Other revolving credit facilities, average interest rate of 3.11% at January 31, 2004, expiring on various dates throughout fiscal 2005 . . . . .	72,033	14,751
	<b>\$80,221</b>	<b>\$188,309</b>

The Company has an agreement (the "Receivables Securitization Program") with a syndicate of banks 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 \$400.0 million. Under this program, which expires in August 2004, the Company legally isolated certain U.S. trade receivables, which are recorded in the Consolidated Balance Sheet, into a wholly-owned bankruptcy remote special purpose entity totaling \$545.3 million and \$583.0 million at January 31, 2004 and 2003, respectively. 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 designated commercial paper rates plus an agreed-upon margin. The Company intends to renew the Receivables Securitization Program for another year after its expiration in August 2004.

Under the terms of the Company's Multi-currency Revolving Credit Facility with a syndicate of banks, the Company is able to borrow funds in major foreign currencies up to a maximum of \$250.0 million. Under this facility, which expires in May 2006, the Company has provided either a pledge of stock or a guarantee of certain of its significant subsidiaries. The Company pays interest on advances under this facility at the applicable eurocurrency rate plus a margin based on the Company's credit ratings. 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 totaling approximately \$598.7 million at January 31, 2004 to support its worldwide operations. Most of these facilities are provided on an unsecured, short-term basis and are reviewed periodically for renewal.

The aforementioned credit facilities total approximately \$1.2 billion, of which \$80.2 million was outstanding at January 31, 2004. 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, restrictions on payment of dividends and restrictions on the amount of common stock that may be repurchased annually. At January 31, 2004, the Company was in compliance with all such covenants. The ability to draw funds under these credit facilities is dependent

## Notes to Consolidated Financial Statements

(Continued)

upon sufficient collateral (in the case of the Receivables Securitization Program) and meeting the aforementioned financial covenants, which limits the Company's ability to draw the full amount of these facilities.

For example, the Company's total borrowings on certain credit facilities are limited to a multiple of the Company's earnings before interest, taxes, depreciation, and amortization ("EBITDA") recognized during the last twelve months. The EBITDA calculation within the covenants allows for certain special charges, such as goodwill impairments, to be excluded. As of January 31, 2004, the maximum amount that could be borrowed under these facilities, in consideration of the availability of collateral and the financial covenants, was approximately \$675 million. In addition, at January 31, 2004, the Company had issued standby letters of credit of \$28.1 million. These letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. The issuance of these letters of credit reduces the Company's available capacity under these agreements by the same amount.

## Note 6. Long-Term Debt

	January 31,	
	2004	2003
	<i>(In thousands)</i>	
Mortgage note payable, interest at 10.25%, principal and interest of \$85,130 payable monthly, balloon payment due January 2005. . . . .	\$ 7,792	\$ 8,002
Convertible subordinated debentures, interest at 2.00% payable semi-annually, due December 2021 . . . . .	290,000	290,000
Capital leases . . . . .	19,400	17,899
	<u>317,192</u>	<u>315,901</u>
Less—current maturities (included in accrued expenses). . . . .	<u>(9,258)</u>	<u>(1,403)</u>
	<u>\$307,934</u>	<u>\$314,498</u>

In December 2001, the Company issued \$290.0 million of convertible subordinated debentures due 2021. The debentures bear interest at 2% per year and are convertible into the Company's common stock at any time, if the market price of the common stock exceeds a specified percentage of the conversion price per share of common stock, beginning at 120% and declining 1/2% each year until it reaches 110% at maturity, or in other specified instances. Holders may convert debentures into 16.7997 shares per \$1,000 principal amount of debentures, equivalent to a conversion price of approximately \$59.53 per share. The debentures are convertible into 4,871,913 shares of the Company's common stock. Holders have the option to require the Company to repurchase the debentures on any of the fourth, eighth, twelfth

or sixteenth anniversary dates from the issue date at 100% of the principal amount plus accrued interest to the repurchase date. Although the Company intends to satisfy any debentures submitted for repurchase with cash, the Company has the option to satisfy such repurchases in either cash and/or the Company's common stock, provided that shares of common stock at the first purchase date will be valued at 95% of fair market value (as defined in the indenture) and at 97.5% of fair market value for all subsequent purchase dates. The debentures are redeemable in whole or in part for cash, at the Company's option at any time on or after December 20, 2005. The Company will pay contingent interest on the debentures during specified six-month periods beginning on December 15, 2005, if the market price of the debentures exceeds specified levels. In addition, the dilutive impact of the \$290.0 million of convertible subordinated debentures, due 2021, is excluded from the diluted EPS calculations due to the conditions for the contingent conversion feature not being met.

The aforementioned debentures are subordinated in right of payment to all senior indebtedness of the Company and are effectively subordinated to all indebtedness and other liabilities of the Company's subsidiaries.

Principal maturities of long-term debt at January 31, 2004 for succeeding fiscal years are as follows:

	Capital Lease Payments	Long- Term Debt	Total
	<i>(In thousands)</i>		
Fiscal year:			
2005. . . . .	\$ 2,580	\$ 7,792	\$ 10,372
2006. . . . .	2,580	—	2,580
2007. . . . .	2,580	—	2,580
2008. . . . .	2,580	—	2,580
2009. . . . .	1,794	—	1,794
Thereafter . . . . .	13,270	290,000	303,270
Total payments . . . . .	<u>25,384</u>	<u>297,792</u>	<u>323,176</u>
Less amounts representing interest . . . . .	<u>(5,984)</u>	<u>—</u>	<u>(5,984)</u>
Total principal payments . . . . .	<u>\$19,400</u>	<u>\$297,792</u>	<u>\$317,192</u>

In August 2000, the Company filed a universal shelf registration statement with the Securities and Exchange Commission for \$500.0 million of debt and equity securities. The net proceeds from any issuance are expected to be used for general corporate purposes, including capital expenditures, the repayment or refinancing of debt and to meet working capital needs. As of January 31, 2004, the Company had not issued any debt or equity securities under this registration statement, nor can any assurances be given that the Company will issue any debt or equity securities under this registration statement in the future.



## Note 7. Income Taxes

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

	Year ended January 31,		
	2004	2003	2002
	(In thousands)		
Current:			
Federal . . . . .	\$21,245	\$28,937	\$45,734
State . . . . .	1,025	1,674	3,710
Foreign . . . . .	17,157	19,064	19,467
Total current . . . . .	<u>39,427</u>	<u>49,675</u>	<u>68,911</u>
Deferred:			
Federal . . . . .	13,011	16,254	(7,199)
State . . . . .	2,007	2,250	(941)
Foreign . . . . .	(7,649)	(1,051)	(3,708)
Total deferred . . . . .	<u>7,369</u>	<u>17,453</u>	<u>(11,848)</u>
	<u>\$46,796</u>	<u>\$67,128</u>	<u>\$57,063</u>

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,		
	2004	2003	2002
Tax (benefit) at U.S. statutory rates . . . . .	35.0%	(35.0)%	35.0%
State income taxes, net of federal benefit . . . . .	1.3	1.9	1.1
Net operating losses . . . . .	8.4	3.8	1.9
Non-deductible goodwill . . . . .	—	86.7	1.6
Loss on disposition of foreign subsidiary . . . . .	—	2.7	—
Tax on foreign earnings under U.S. rate . . . . .	(12.8)	(9.9)	(6.4)
Other—net . . . . .	(0.9)	0.4	0.8
	<u>31.0%</u>	<u>50.6%</u>	<u>34.0%</u>

The components of pretax earnings are as follows:

	Year ended January 31,		
	2004	2003	2002
	(In thousands)		
United States . . . . .	\$101,059	\$136,796	\$99,210
Foreign . . . . .	49,884	(269,486)	68,630
	<u>\$150,943</u>	<u>\$(132,690)</u>	<u>\$167,840</u>

Significant components of the Company's deferred tax liabilities and assets are as follows:

	January 31,	
	2004	2003
	(In thousands)	
Deferred tax liabilities:		
Accelerated depreciation . . . . .	\$27,294	\$13,595
Capitalized advertising program costs . . . . .	2,213	1,977
Convertible debenture interest . . . . .	17,279	8,500
Total deferred tax liabilities . . . . .	<u>46,786</u>	<u>24,072</u>
Deferred tax assets:		
Accrued liabilities and reserves . . . . .	37,505	36,199
Loss carryforwards . . . . .	106,719	61,378
Other, net . . . . .	5,446	2,648
	<u>149,670</u>	<u>100,225</u>
Less: valuation allowance . . . . .	(58,130)	(24,815)
Total deferred tax assets . . . . .	<u>91,540</u>	<u>75,410</u>
Net deferred tax asset . . . . .	<u>\$44,754</u>	<u>\$51,338</u>

The net change in the deferred income tax valuation allowance was an increase of \$33.3 million at January 31, 2004, an increase of \$7.2 million at January 31, 2003, and a decrease of \$0.6 million at January 31, 2002. Approximately \$11.2 million of the current year increase in the valuation allowance is associated with Azlan deferred tax assets (primarily net operating loss carryforwards) existing as of the acquisition date. To the extent the Azlan acquisition-related deferred tax assets are realized in future periods, such benefit would be recorded as a reduction in goodwill.

The valuation allowance at January 31, 2004 primarily relates to foreign net operating loss carryforwards of \$323.1 million. The majority of the net operating losses have an indefinite carryforward period with the remaining portion expiring in years 2005 through 2014. The Company evaluates a variety of factors in determining the realizability of deferred tax assets, including the scheduled reversal of deferred tax liabilities, projected future taxable income, and prudent and feasible tax planning strategies.

The cumulative amount of undistributed earnings of foreign subsidiaries for which U.S. income taxes have not been provided was approximately \$223.2 million at January 31, 2004. It is not currently practical to estimate the amount of unrecognized deferred U.S. taxes that might be payable on the repatriation of these foreign earnings.

## Notes to Consolidated Financial Statements

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## Note 8. Employee Benefit Plans

**Stock Compensation Plans**

At January 31, 2004, the Company had four stock-based compensation plans which authorized the issuance of 20.7 million shares, of which approximately 4.5 million shares are available for future grant. Under the plans, the Company is authorized to award officers, employees, and non-employee members of the Board of Directors grants of restricted stock, options to purchase common stock, and performance awards that are dependent upon achievement of specified performance goals. Stock options granted have a maximum term of 10 years, unless a shorter period is specified by the Compensation Committee of the Board of Directors. Awards under the plans are priced as determined by the Compensation Committee with the exception of stock option awards that are priced at the fair market value on the date of grant. Awards generally vest between one and five years from the date of grant. The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for these plans.

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

	January 31, 2004		January 31, 2003		January 31, 2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year . . . . .	7,064,331	\$32.14	6,519,696	\$28.08	6,303,752	\$27.20
Granted . . . . .	2,101,055	24.44	2,012,140	43.17	2,046,630	28.66
Exercised . . . . .	(1,236,862)	23.49	(1,073,829)	27.76	(1,401,598)	24.36
Canceled . . . . .	(976,063)	33.18	(393,676)	33.24	(429,088)	30.15
Outstanding at year end . . . . .	<u>6,952,461</u>	<u>31.20</u>	<u>7,064,331</u>	32.14	<u>6,519,696</u>	28.08
Options exercisable at year end . . . . .	3,436,503		2,672,089		1,845,192	
Available for grant at year end . . . . .	4,452,027		2,245,206		2,853,030	

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at January 31, 2004	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable at January 31, 2004	Weighted Average Exercise Price
\$10.63–\$13.75 . . . . .	118,050	1.17	\$10.76	118,050	\$10.76
14.38– 16.50 . . . . .	557,025	4.60	16.11	425,027	15.99
17.13– 24.27 . . . . .	1,976,195	8.56	24.04	190,875	23.10
24.69– 28.31 . . . . .	920,780	7.24	28.18	420,320	28.29
28.40– 30.63 . . . . .	749,980	6.23	30.56	740,660	30.58
31.01– 42.25 . . . . .	901,661	5.14	38.77	821,578	39.19
43.26– 51.38 . . . . .	1,728,770	7.88	43.60	719,993	43.90
	<u>6,952,461</u>	7.08	31.20	<u>3,436,503</u>	32.25

**Employee Stock Purchase Plan**

Under the 1995 Employee Stock Purchase Plan (the "ESPP") 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 ESPP, 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 in fair market value each calendar year. Since the inception of the ESPP, the

Company has sold 360,182 shares through January 31, 2004. All shares purchased under the ESPP must be retained for a period of one year.

**Pro Forma Effect of Stock Compensation Plans**

The Company has disclosed in Note 1—Summary of Significant Accounting Policies, the pro forma net income and pro forma earnings per share reflecting the compensation cost that the Company would have recorded on its stock option plans and employee stock purchase plan had it used the fair value at grant date for awards under the plans consistent with the method prescribed by SFAS No. 123. The pro forma results were calculated

with the use of the Black-Scholes option-pricing model. The weighted average fair value of options granted during fiscal 2004, 2003, and 2002 was \$13.10, \$23.74, and \$16.63, respectively. The following weighted average assumptions were used for the years ended January 31, 2004, 2003 and 2002, respectively:

Year Ended January 31,	Expected Option Term (years)	Expected Volatility	Risk-Free Interest Rate	Expected Dividend Yield
2004	4	66%	2.54%	0%
2003	5	66%	4.30%	0%
2002	5	67%	4.37%	0%

Results may vary depending on the assumptions applied within the model.

#### Stock Ownership and Retirement Savings Plans

The Company sponsors the Tech Data Corporation 401(k) Savings Plan ("the 401(k) Savings Plan") for its employees. At the Company's discretion, participant deferrals are matched monthly, in the form of company stock, in an amount equal to 50% of the first 6% of participant deferrals, with no maximum, and participants are fully vested following four years of qualified service.

At January 31, 2004 and 2003, the number of shares of Tech Data common stock held by the Company's 401(k) Savings Plan amounted to 393,000 and 541,800 shares, respectively. Tech Data did not make any contributions to the 401(k) Savings Plan in fiscal 2004. Aggregate contributions made by the Company to the 401(k) Savings Plan were \$0.3 million and \$2.1 million for fiscal 2003 and fiscal 2002, respectively.

#### Note 9. 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.

During the fiscal year ended January 31, 2002, the Company completed a transaction wherein it exchanged 192,525 shares of its common stock for all of the issued and outstanding shares of preferred stock.

#### Note 10. Commitments and Contingencies

##### Operating Leases

The Company leases logistics centers, office facilities and certain equipment under non-cancelable operating leases that expire at various dates through 2015. Rental expense for all operating leases amounted to \$54.5 million, \$44.3 million, and \$48.1 million in 2004, 2003 and 2002, respectively. Future minimum lease payments under all such leases for succeeding fiscal years are as follows:

Fiscal year:	(In thousands)
2005.....	\$ 63,954
2006.....	56,455
2007.....	44,945
2008.....	38,820
2009.....	27,490
Thereafter .....	123,639
Total payments .....	<u>\$355,303</u>

The Company will receive a total of \$1.0 million in future rental receipts under non-cancelable subleases.

##### Synthetic Lease Facility

On July 31, 2003, the Company completed a restructuring of its synthetic lease facility with a group of financial institutions (the "Restructured Lease") under which the Company leases certain logistics centers and office facilities from a third-party lessor. The Restructured Lease expires in 2008, at which time the Company has the following options: renew the lease for an additional five years, purchase the properties at an amount equal to their cost, or remarket the properties. If the Company elects to remarket the properties, it has guaranteed the lessor a percentage of the cost of each of the properties, in an aggregate amount of approximately \$121.1 million. At any time during the lease term, the Company may, at its option, purchase up to four of the seven properties, at an amount equal to each property's cost. The Restructured Lease contains covenants that must be complied with on a continuous basis, similar to the covenants described in certain of the credit facilities discussed in Note 5. The amount funded under the Restructured Lease is treated as debt under the definition of the covenants required under both the Restructured Lease and the credit facilities. As of January 31, 2004, the Company was in compliance with all such covenants.

## Notes to Consolidated Financial Statements

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The Restructured Lease is fully funded at January 31, 2004, in the approximate amount of \$141.3 million. The sum of future minimum lease payments under the Restructured Lease at January 31, 2004 was approximately \$19.5 million. Properties leased under the Restructured Lease facility total 2.5 million square feet of space, with land totaling 224 acres located in Clearwater and Miami, Florida; Fort Worth, Texas; Fontana, California; Atlanta, Georgia; Swedesboro, New Jersey; and South Bend, Indiana.

The Restructured Lease has been accounted for as an operating lease. As discussed in Note 1, FIN No. 46 requires the Company to evaluate whether an entity with which it is involved meets the criteria of a VIE and, if so, whether the Company is required to consolidate that entity. The Company has determined that the third-party lessor of its synthetic lease facility does not meet the criteria of a VIE and, therefore, is not subject to the consolidation provisions of FIN No. 46.

### **Contingencies**

Prior to fiscal 2004, one of the Company's European subsidiaries was audited in relation to various value-added tax ("VAT") matters. As a result of those audits, the subsidiary received notices of assessment that allege the subsidiary did not properly collect and remit VAT. It is management's opinion, based upon the opinion of outside legal counsel, that the Company has valid defenses related to a substantial portion of these assessments. Although the Company is vigorously pursuing administrative and judicial action to challenge the assessments, no assurance can be given as to the ultimate outcome. The resolution of such assessments could be material to the Company's operating results for any particular period, depending upon the level of income for such period.

The Company is subject to various other legal proceedings and claims arising in the ordinary course of business. The Company's management does not expect that the outcome in any of these other legal proceedings, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

### **Guarantees**

To encourage certain customers to purchase product from the Company, the Company provides financial guarantees to third-party lenders on behalf of those customers. The majority of these guarantees are for an indefinite period of time, where the Company

would be required to perform if the customer is in default with the third-party lender. As of January 31, 2004 and 2003, the aggregate amount of guarantees under these arrangements totaled approximately \$18.6 million and \$21.8 million, respectively, of which approximately \$12.5 million and \$10.9 million, respectively, was outstanding. Additionally, the Company believes that, based on historical experience, the likelihood of a payment pursuant to such guarantees is remote. The Company also provides residual value guarantees related to its synthetic lease facility, noted above.

The Company sold trade receivables to a financial institution, amounting to approximately \$33.6 million in January 2004. The transaction was accounted for as a sale and accordingly, has been excluded from the Consolidated Balance Sheet. Given these receivables were sold with recourse, the Company has considered the risk of loss associated with these receivables within its assessment of the adequacy of its allowance for doubtful accounts at January 31, 2004.

### **Note 11. Segment Information**

Tech Data operates predominately in a single industry segment as a distributor of IT products, logistics management, and other value-added services. While the Company operates primarily in one industry, because of its global presence, the Company is managed by its geographic segments. Starting in the first quarter of fiscal 2004, the Company modified its management structure and combined its U.S., Canadian and Latin American operations into the Americas region. The Company's Canadian and Latin American operations were previously reported separately as the Other International region. As a result, the Company's geographic segments include 1) the Americas (United States, Canada, Latin America and export sales to Latin America and the Caribbean from the U.S.) and 2) Europe (Europe, Middle East, and export sales to Africa). Prior year amounts have been reclassified to conform to the current period presentation. The Company assesses performance of and makes decisions on how to allocate resources to its operating segments based on multiple factors including current and projected operating income and market opportunities. The accounting policies of the segments are the same as those described in Note 1—Summary of Significant Accounting Policies.

Financial information by geographic segment is as follows:

	Year ended January 31,		
	2004	2003	2002
	(In thousands)		
Net sales to unaffiliated customers			
Americas . . . . .	\$ 7,839,425	\$ 8,337,796	\$ 9,964,260
Europe . . . . .	9,566,915	7,401,149	7,233,251
Total . . . . .	<u>\$17,406,340</u>	<u>\$15,738,945</u>	<u>\$17,197,511</u>
Operating income (loss) <sup>(a)</sup>			
Americas . . . . .	\$ 120,413	\$ 158,426	\$ 152,310
Europe . . . . .	45,203	(268,268)	70,806
Total . . . . .	<u>\$ 165,616</u>	<u>\$ (109,842)</u>	<u>\$ 223,116</u>
Depreciation and amortization			
Americas . . . . .	\$ 19,957	\$ 28,064	\$ 37,112
Europe . . . . .	35,127	21,785	26,376
Total . . . . .	<u>\$ 55,084</u>	<u>\$ 49,849</u>	<u>\$ 63,488</u>
Capital expenditures			
Americas . . . . .	\$ 13,380	\$ 15,098	\$ 20,634
Europe . . . . .	39,612	44,040	32,399
Total . . . . .	<u>\$ 52,992</u>	<u>\$ 59,138</u>	<u>\$ 53,033</u>
Identifiable assets			
Americas . . . . .	\$ 1,358,729	\$ 1,310,484	\$ 1,506,563
Europe . . . . .	2,809,157	1,937,534	1,951,767
Total . . . . .	<u>\$ 4,167,886</u>	<u>\$ 3,248,018</u>	<u>\$ 3,458,330</u>
Goodwill			
Americas . . . . .	\$ 2,966	\$ 2,966	\$ 8,732
Europe . . . . .	138,272	—	260,371
Total . . . . .	<u>\$ 141,238</u>	<u>\$ 2,966</u>	<u>\$ 269,103</u>

(a) The amounts shown above include \$3.1 million, \$328.9 million, and \$27.0 million of pre-tax special charges for the years ended January 31, 2004, 2003, and 2002, respectively. For the fiscal year ended January 31, 2004, the entire \$3.1 million of charges related to the Americas operations. For the year ended January 31, 2003, \$324.4 million of these charges related to European operations and \$4.5 million related to operations in the Americas. For the year ended January 31, 2002, \$25.5 million related to the Americas and \$1.5 million related to European operations. See also Note 12—Special Charges.

## Note 12. Special Charges

In fiscal 2004, 2003, and 2002 the Company recorded pre-tax special charges of \$3.1 million, \$328.9 million, and \$27.0 million, respectively, as follows:

	Year ended January 31,		
	2004	2003	2002
	(In millions)		
Closure of U.S. education business . . . . .	\$3.1	\$ —	\$ —
Impairment of goodwill . . . . .	—	328.9	—
Write-off of other capitalized software . . . . .	—	—	5.8
Write-off of inventory management software . . . . .	—	—	14.3
Impairment of Internet-related investments . . . . .	—	—	5.4
Impairment of logistics center development costs . . . . .	—	—	1.5
Total special charges . . . . .	<u>\$3.1</u>	<u>\$328.9</u>	<u>\$27.0</u>

This total is presented separately as a component of income from operations in the Consolidated Statement of Income. For the fiscal year ended January 31, 2004, the special charge related to the closure of the Company's education business in the United States and the restructuring of this business to an outsourced model.

During the fiscal year ended January 31, 2003, the Company recognized \$328.9 million for the impairment of goodwill. As required by SFAS No. 142, the Company performs annual tests to determine if recorded goodwill has been impaired. In order to meet the Statement's annual impairment testing requirements, we determined the fair value of each reporting unit using market multiples and discounted cash flows modeling. The Company's reduced earnings and cash flow forecast, primarily due to the prolonged downturn in the economy, uncertain demand, and competitive industry conditions, resulted in the Company determining that a goodwill impairment charge was necessary. The \$328.9 million non-cash charge was recorded in the fourth quarter of fiscal 2003 and related to the Company's foreign operations.

The Company recognized special charges of \$5.8 million for the fiscal year ended January 31, 2002 related to a variety of small software enhancements and tools that were no longer being used due to either their replacement with more current software or changes in the business, which rendered this software useless.

For the fiscal year ended January 31, 2002, \$14.3 million was recognized related to the write-off of inventory management software purchased at the end of fiscal 2000 and capitalized as construction in progress, in conjunction with the Company's inter-

## Notes to Consolidated Financial Statements

(Continued)

nal enterprise transformation project. Prior to development and implementation of this inventory management software, the Company determined that it had already achieved the desired inventory metrics, including owned inventory, days of supply and fill rates, through enhancements to existing systems and other process improvements, including the creation of a new purchasing division. As a result, a new cost benefit analysis was performed, which indicated that the anticipated benefits no longer supported the costs to be expended implementing the software.

The Company also recognized \$5.4 million for the fiscal year ended January 31, 2002 of special charges for the impairment of

the Company's investments in the equity securities of certain privately held, Internet-related companies. Recognition of an impairment charge was the result of the investees experiencing a series of operating losses which appeared to be other than temporary, and raised substantial doubts about the Company's ability to recoup its full investment.

Finally, the Company wrote off \$1.5 million of costs during the fiscal year ended January 31, 2002 associated with the development of a new logistics center in Germany. The construction of this facility has been indefinitely deferred as a result of the economic downturn.

## Note 13. Interim Financial Information (Unaudited)

	Quarter ended			
	April 30	July 31	October 31	January 31
	<i>(In thousands, except per share amounts)</i>			
<b>Fiscal year 2004</b>				
Net sales . . . . .	\$3,913,857	\$4,178,751	\$4,395,003	\$4,918,729
Gross profit . . . . .	207,160	237,418	245,086	291,982
Net income . . . . .	21,537	17,170	26,522	38,918
Net income per share:				
Basic . . . . .	\$ 0.38	\$ 0.30	\$ 0.47	\$ 0.68
Diluted . . . . .	\$ 0.38	\$ 0.30	\$ 0.46	\$ 0.67
<b>Fiscal year 2003</b>				
Net sales . . . . .	\$3,920,420	\$3,996,719	\$3,810,719	\$4,011,087
Gross profit . . . . .	208,892	210,673	206,888	205,305
Net income (loss) . . . . .	35,139	35,262	32,826	(303,045)
Net income (loss) per share:				
Basic . . . . .	\$ 0.63	\$ 0.62	\$ 0.58	\$ (5.37)
Diluted . . . . .	\$ 0.60	\$ 0.60	\$ 0.57	\$ (5.37)

## Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995 Exhibit 99-A

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, 2004 to which this exhibit is appended, other 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. The Company's policies are in compliance with Regulation FD.

It is not reasonably possible to itemize all of the many factors and specific events that could affect the Company and/or the information technology logistics industry as a whole. Specific risk factors may also be communicated at the time forward-looking statements are made. The following additional factors 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 logistics 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. Weakness in demand in the market intensifies the competitive environment in which the Company operates. 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 that may be able to offer resellers lower prices than the Company. Products purchased from Hewlett-Packard Company ("HP"), represent in excess of 30% of sales by the Company. HP has elected to sell certain product lines direct. HP's perception of the results of its direct sale policy with certain product lines may impact its decision on other product lines that the Company also carries. The Company also faces competition from companies entering or expanding into the logistics and product fulfillment and e-commerce supply chain services market.

### **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. Future gross profit and operating 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, that 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 price protection claims or 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 to protect distributors 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.

### **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 or experience disruptions, (such as due to deliberate attempts to attack the Company's system infrastructure), 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, that the Company will be able to convert to new systems efficiently, that the Company will be able to integrate new programs effectively with its existing programs, 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 upgrading its computer system used for operations in its European subsidiaries. The upgrade to SAP R3, and the conversion in some countries to SAP R3 from a non-SAP system will be implemented over the next several years. Certain implementation activities will require higher than typical expenses for various country operations during the upgrade installation phase. While the Company believes that its phased and careful approach to the implementation will lead to successful conversions with limited disruption to business operations, no assurance can be given that the upgrades and conversions will not cause disruption of the Company's business.

## Cautionary Statements for Purposes of the “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995 Exhibit 99-A (Continued)

### ***Customer Credit Exposure***

The Company sells its products to a large customer base of value-added resellers, corporate resellers, retailers and direct marketers. The Company finances a significant portion of such sales. 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 increases because of the general economic downturn affecting a large number of the Company's customers and in the event the Company's customers do not adequately manage their business or properly disclose their financial condition.

### ***Liquidity and Capital Resources***

The Company's business requires substantial capital to operate and 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, proceeds from public offerings of its common stock and proceeds from debt offerings to satisfy its capital needs and finance growth. The Company utilizes financing strategies such as receivables securitization, leases, subordinated convertible debentures and revolving credit facilities. As the financial markets change and new regulations come into effect, the cost of acquiring financing and the methods of financing may change. Changes in our credit rating or other market factors may increase our interest expense or other costs of capital, or capital may not be available to us on acceptable terms to fund our working needs. The Company will continue to need additional financing, including debt financing. The inability to obtain such sources of capital could have an adverse effect on the Company's business. The Company's revolving credit facilities contain various financial covenants that may limit the Company's ability to borrow.

### ***Fluctuations in Interest Rates***

The Company utilizes financing strategies such as receivables securitization, leases, subordinated convertible debentures and revolving credit facilities. Many of these financing strategies involve variable rate debt, thus exposing us to risk of fluctuations in interest rates. Such fluctuations in interest rates 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 or impairment of any acquired intangible assets. The Company acquired Azlan Group PLC (“Azlan”) effective March 31, 2003, and is in the process of developing and implementing its

integration strategy for this acquisition. Azlan has numerous locations in a number of European countries where the Company has existing operations.

### ***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. In particular, the value of the Company's equity investment in foreign countries may fluctuate based upon changes in foreign currency exchange rates. These fluctuations, which are carried in a cumulative translation adjustment account, may result in losses in the event a foreign subsidiary is sold or closed at a time when the foreign currency is weaker than when the Company initially invested in the country.

The Company's international operations are subject to other risks such as the imposition of governmental controls, export license requirements, restrictions on the export of certain technology, political instability, trade restrictions, tariff changes, difficulties in staffing and managing international operations, changes in the interpretation and enforcement of laws (in particular related to items such as duty and taxation), difficulties in collecting accounts receivable, longer collection periods and the impact of local economic conditions and practices. There can be no assurance that these and other factors will not have an adverse effect on the Company's business.

### ***Changes in Income Tax and Other Regulatory Legislation***

The Company operates in compliance with applicable laws and regulations. Where new legislation is enacted with minimal advance notice, or interpretations or new applications of existing law are made, the Company may need to implement changes in its policies or structure. As an example, the Company is currently responding to the corporate and accounting reforms enacted recently by the legislature, the Securities and Exchange Commission (“SEC”), and the stock exchanges. The Company makes plans for its structure and operations based upon existing laws and anticipated future changes in the law. The Company is susceptible to unanticipated changes in legislation, especially relating to income and other taxes, import/export laws, hazardous materials legislation, and other laws related to trade, accounting, and business activities. Such changes in legislation, both domestic and international, may have a significant adverse effect on the Company's business.

### ***Changes in Accounting Rules***

The Company prepares its financial statements in conformity with accounting principles generally accepted in the United States. When new accounting rules are issued, the Company may need to implement changes to its accounting policies. As an example, the Financial Accounting Standards Board (“the FASB”) is considering issuing new rules requiring companies to treat stock options as an expense. Although not yet final, should the new rule become effective, the expensing of stock options would likely have a significantly adverse impact on Tech Data's results of operations.



### **Product Supply**

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.

### **Delivery Systems**

The Company relies on arrangements with independent shipping companies, such as Federal Express and United Parcel Service, for the delivery of its products from vendors and to customers. The failure or inability of these shipping companies to deliver products, or the unavailability of their shipping services, even temporarily, could have a material adverse effect on the Company's business. The Company may also be adversely affected by an increase in freight surcharges due to rising fuel costs and added security. There can be no assurance that Tech Data will be able to pass along the full effect of an increase in these surcharges to its customers.

### **Vendor Relations**

The Company relies on various rebates, cash discounts, and cooperative marketing programs offered by its vendors to support expenses associated with distributing and marketing the vendors' products. Currently, the rebates and purchase discounts offered by vendors are influenced by sales volumes and percentage increases in sales, and are subject to changes by the vendors. Additionally, certain of the Company's vendors subsidize floor plan financing arrangements. A reduction by the Company's vendors in any of these programs, or a significant change in their offerings, could have an adverse effect on the Company's business.

The Company receives a significant percentage of revenues from products it purchases from relatively few manufacturers. Each manufacturer may make rapid, significant and adverse changes in their sales terms and conditions, or may merge with or acquire other significant manufacturers. The Company's gross margins could be materially and negatively impacted if the Company is unable to pass through the impact of these changes to the Company's reseller customers or cannot develop systems to manage ongoing supplier pass-through programs. In addition, the Company's standard vendor distribution agreement permits termination without cause by either party upon 30 days notice. The loss of a relationship with any of the Company's key vendors, a change in their strategy (such as increasing direct sales), the merging of significant manufacturers, or significant changes in terms on their products may adversely affect 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. 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. As a result of unfavorable economic conditions in many of the Company's markets, the Company experienced a reduction in sales. In response to this reduction in sales, the Company significantly reduced its workforce. This resulted in increased responsibilities for management and other personnel. There can be no assurance that the strain placed upon the Company's management and other personnel, resulting from these increased responsibilities, will not have an adverse effect on the Company's business.

### **Exposure to Natural Disasters, War, and Terrorism**

The Company's headquarter facilities, some of its logistics centers as well as certain vendors and customers are located in areas prone to natural disasters such as floods, hurricanes, tornadoes, or earthquakes. In addition, demand for the Company's services is concentrated in major metropolitan areas. Adverse weather conditions, major electrical failures or other natural disasters in these major metropolitan areas may disrupt the Company's business. The Company's business could be adversely affected should its ability to distribute products be impacted by such an event.

The Company operates in multiple geographic markets, several of which may be susceptible to acts of war and terrorism. The Company's business could be adversely affected should its ability to distribute products be impacted by such events.

The Company and many of its suppliers receive parts and product from Asia and operate in many parts of the world that may be susceptible to disease or epidemic that may result in disruption in the ability to receive or deliver products or other disruptions in operations.

### **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. Some 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. Many of the products the Company sells are manufactured in countries other than the countries in which the Company's logistics centers are located. The inability to receive products into the logistics centers because of government action or labor disputes at critical ports of entry may have a material adverse effect on the results of operations of 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. Some of the factors that may affect the market price of the common stock, in addition to those discussed above, are changes in investment

**Cautionary Statements for Purposes of the "Safe Harbor"  
Provisions of the Private Securities Litigation Reform Act of 1995  
Exhibit 99-A (Continued)**

recommendations by securities analysts, changes in market valuations of competitors and key vendors, and fluctuations in the stock market price and volume of traded shares generally, but particularly in the technology sector.

**Forecasts**

The forecasts of volume, timing, and gross profits of orders are based on many factors and subjective judgments, and the

Company cannot assure that the forecasts are accurate. The Company makes many management decisions on the basis of the forecasts, including the hiring and training of personnel, which represents a significant portion of our overall expenses. Thus, the failure to generate revenue and gross profits according to expectations would have a material adverse effect on the results of the operations of the Company.

## Market for the Registrant's Common Stock and Related Shareholder Matters

Our common stock is traded on The NASDAQ Stock Market under the symbol "TECD." We have not paid cash dividends since fiscal 1983 and 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 sale prices for our common stock as reported by The NASDAQ Stock Market, Inc. As of February 20, 2004, there were 491 holders of record. We believe that there are approximately 29,000 beneficial holders.

	Sales Price	
	High	Low
<b>Fiscal year 2004</b>		
Fourth quarter . . . . .	<b>\$42.83</b>	<b>\$31.48</b>
Third quarter . . . . .	<b>35.33</b>	<b>29.30</b>
Second quarter . . . . .	<b>32.68</b>	<b>23.51</b>
First quarter . . . . .	<b>26.76</b>	<b>19.07</b>
<b>Fiscal year 2003</b>		
Fourth quarter . . . . .	\$37.85	\$24.47
Third quarter . . . . .	36.59	23.75
Second quarter . . . . .	47.88	32.41
First quarter . . . . .	51.66	41.27

**Equity Compensation Plan Information<sup>(1)</sup>**

The number of shares issuable upon exercise of outstanding options granted to employees and non-employee directors, as well as the number of shares remaining available for future issuance, under our equity compensation plans as of January 31, 2004 are summarized in the following table:

	Number of shares to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of shares remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders for:			
Employee equity compensation . . . . .	4,442,667	\$29.01	3,916,861
Employee stock purchase . . . . .	—	—	639,818
Non-employee directors equity compensation . . . . .	89,500	33.40	99,000
	<hr/> 4,532,167	29.09	<hr/> 4,655,679
Employee equity compensation plan not approved by shareholders . . . . .	2,420,294	35.16	436,166
	<hr/> 6,952,461	31.20	<hr/> 5,091,845

(1) A copy of the 2000 Non-Qualified Stock Option Plan of Tech Data Corporation was included as an exhibit to our Registration Statement on Form S-8 (file no. 333-59198) filed on April 19, 2001, under which underlying shares of our common stock were registered. This exhibit is incorporated by reference.

Tech Data Corporation & Subsidiaries  
**Corporate Information**

#### Board of Directors

**Steven A. Raymund**  
Chairman of the Board of Directors and  
Chief Executive Officer,  
Tech Data Corporation

**Charles E. Adair**  
Partner,  
Cordova Ventures

**Maximilian Ardel**  
Managing Director,  
Con Digiit Consult GmbH

**James M. Cracchiolo**  
Group President, Global Financial Services,  
Chairman and Chief Executive Officer,  
American Express Financial Advisors

**Jeffery P. Howells**  
Executive Vice President and  
Chief Financial Officer,  
Tech Data Corporation

**Kathy Misunas**  
Founder and Principal,  
Essential Ideas

**David M. Upton**  
Albert J. Weatherhead III  
Professor of Business Administration,  
Technology and Operations Management,  
Harvard Business School

**John Y. Williams**  
Managing Director,  
Equity-South Advisors, LLC

#### Corporate Headquarters

Tech Data Corporation  
5350 Tech Data Drive  
Clearwater, FL 33760  
727-539-7429  
www.techdata.com

#### Independent Certified Public Accountants

Ernst & Young LLP, Tampa, FL

#### Securities Counsel

GrayRobinson, P.A., Tampa, FL

#### Ethics Reporting Hotline

866-TD ETHIC—866-833-8442

#### Stock Listing

The NASDAQ Stock Market, Inc.  
Ticker symbol: TECD

#### Officers

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

**Néstor Cano**  
President of Worldwide Operations

**Jeffery P. Howells**  
Executive Vice President and  
Chief Financial Officer

**Kenneth Lamneck**  
President, the Americas

**Joseph A. Osbourn**  
Executive Vice President and  
Worldwide Chief Information Officer

**Theresa A. Bazzone**  
Senior Vice President of U.S. Sales

**Charles V. Dannewitz**  
Senior Vice President of Tax and Treasurer

**Andreas Duerst**  
Senior Vice President of Central Europe

**Andrew Gass**  
Senior Vice President of Northern Europe

**Lawrence W. Hamilton**  
Senior Vice President of Human Resources

**William J. Hunter**  
Senior Vice President and  
Chief Financial Officer of Europe

#### Transfer Agent

Mellon Investor Services LLC  
85 Challenger Road,  
Ridgefield Park, NJ 07660  
800-756-3353  
www.melloninvestor.com

#### Trustee for 2% Convertible Debentures

J.P. Morgan Trust Company  
National Association  
2001 Bryan Street, 9th Floor  
Dallas, TX 75221  
800-275-2048

#### Annual Meeting of Shareholders

All interested parties are cordially invited to attend the Annual Meeting of Shareholders on Thursday, June 10, 2004, at 4:00 p.m. at the company headquarters, 5350 Tech Data Drive, Clearwater, FL 33760.

**Elio Levy**  
Senior Vice President of U.S. Marketing

**Richard Pryor-Jones**  
Senior Vice President and  
Managing Director of Azlan Group

**Yuda Saydun**  
Senior Vice President of Business Development  
and President of Latin America Operations

**William K. Todd, Jr.**  
Senior Vice President of Logistics and  
Integration Services

**Joseph B. Trepani**  
Senior Vice President and  
Corporate Controller

**David R. Vetter**  
Senior Vice President,  
General Counsel and Secretary

**Gerard F. Youna**  
Senior Vice President of Southern Europe

**Benjamin B. Godwin**  
Corporate Vice President,  
Real Estate and Corporate Services

#### Financial Reports

Financial reports, including Form 10-K and annual reports, can be accessed online at: techdata.com. You may also obtain a copy upon written request to:

Tech Data Corporation  
Attention: Investor Relations  
5350 Tech Data Drive  
Clearwater, FL 33760

#### Investor Inquiries

Investor Relations  
Phone: 800-292-7906  
Fax: 727-538-5860  
E-mail: ir@techdata.com



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